

Indiana Public Employees' Retirement Fund
Requests for Proposal (RFP)

SECTION ONE
GENERAL INFORMATION

1.1 INTRODUCTION

The Indiana Public Employees' Retirement Fund (otherwise known as Indiana PERF) is conducting manager searches as detailed below. More than one manager for each assignment may be considered.

GLOBAL GROWTH EQUITY

A global equity portfolio benchmarked to MSCI All Country World Index. Strategies with a growth style orientation will be considered for placement. It is expected that the global growth portfolio will provide returns that exceed those of the Index over a full market cycle (3 – 5 years), net of fees. Regardless of philosophy, benchmark risk, as measured by tracking error, should be commensurate with the level of excess returns.

The State of Indiana encourages the use of emerging minority and female-owned investment management firms.

1.2 DEFINITIONS AND ABBREVIATIONS

Following are explanations of terms and abbreviations appearing throughout this RFP. Other special terms may be used in the RFP, but they are defined where they appear, rather than in the following list.

PERF	Indiana Public Employees' Retirement Fund
Board	Board of Trustees of PERF.
IAC	The Indiana Administrative Code.
IC	The Indiana Code.
Proposal	An offer as defined in IC 5-22-2-17.
Consultant	Mercer Investment Consulting
Respondent	An offeror as defined in IC 5-22-2-18.
Services	Work to be performed as specified in this RFP.
Contractor	A respondent(s) selected through this RFP process to deliver the prescribed services.

1.3 ISSUER

In accordance with Indiana statutes governing the administration of PERF and the Board's Investment Procurement Policy (Exhibit B), the Board has approved issuance of this RFP. The Staff, in conjunction with Consultant, has prepared the content of this RFP. One (1) paper copy of this RFP may be provided free of charge from PERF or an electronic version of the same is available on PERF's website (<http://www.in.gov/perf/whatsnew/contract/index.html>). A nominal fee will be charged for providing additional paper copies. If you are unable to access the website or have additional questions please call 312-902-7438.

1.4 DUE DATE AND FORMAT FOR PROPOSALS

All proposals must be received at the address below no later than 5:00pm Central Time on April 15, 2003. Respondents' data must also be added electronically to the Consultant's database by that time.

Each respondent must submit one original (marked "Original") of their proposal, including the transmittal letter and other related documentation as required in Sections 4.2 and 4.3 of this RFP.

The original of the hard copy must be addressed to:

Ms. Patricia J. Gerrick, Chief Investment Officer

Indiana Public Employees' Retirement Fund
125 W. Market Street
Suite 200
Indianapolis, IN 46204

The electronic portion of the proposal must be submitted electronically via Consultant's online database located at the following website: <http://www.mercergimd.com/> This website includes a demographic section for organization information as well as detailed product information sections.

Please contact (312) 902-7438 to update the respondent's proposed product in Consultant's database. Respondents that are not currently participating in Consultant's database will be issued passwords based upon requests communicated via the above listed phone number.

Any proposal received after the due date will not be considered. Any late proposals will be returned, unopened, to the respondent, upon request, within thirty (30) days of filing.

1.5 MODIFICATION OR WITHDRAWAL OF OFFERS

Responses to this RFP may be modified or withdrawn in writing or by fax notice received prior to the date specified for receipt of proposals. The respondent's authorized representative may also withdraw the proposal in person, providing his or her identity is made known and he or she signs a receipt for the proposal. Proposals may not be withdrawn after the proposal due date has passed.

Modification or withdrawal of a proposal received after the date specified for receipt of proposals will not be considered. If it becomes necessary to revise any part of this RFP or if additional data is necessary for an exact interpretation of provisions of this RFP prior to the due date for proposals, a supplement will be posted by PERF on its website as noted in Section 1.3. If such addenda issuance is necessary, PERF reserves the right to extend the due date of proposals to accommodate such interpretations or additional data requirements.

1.6 JOINT BIDS / SUBCONTRACTING

PERF will not entertain joint bids.

Although PERF anticipates that any respondent submitting a proposal will provide the major portion of the services as requested, subcontracting by the respondent is acceptable in performing the requirements of this RFP. However, the respondent must obtain the approval of PERF before subcontracting any portion of the project's requirements. The respondent is responsible for the performance of any obligations that may result from this RFP and shall not be relieved by the non-performance of any subcontractor. Any respondent's proposal must identify all subcontractors and outline the contractual relationship between the respondent and each subcontractor. Either a copy of the executed subcontract or a letter of agreement over the official signature of the firms involved must accompany each proposal.

Any subcontracts entered into by the respondent must be in compliance with all State of Indiana statutes and be subject to the provisions thereof. For each portion of the proposed services to be

provided by a subcontractor, the technical proposal must include the identification of the functions to be provided by the subcontractor and the subcontractor's related qualifications and experience.

The combined qualifications and experience of the respondent and any or all subcontractors will be considered in PERF's evaluation. The respondent must furnish information to PERF as to the amount of the subcontract, the qualifications of the subcontractor for guaranteeing performance, and any other data that may be required by PERF. All subcontracts held by the respondent must be made available upon request for inspection and examination by appropriate PERF officials and such relationships must meet with the approval of the PERF.

1.7 CONFIDENTIAL INFORMATION

Respondents are advised that materials contained in proposals are subject to the Indiana Public Records Act, IC 5-14-3 et seq., and, after the contract award, may be viewed and copied by any member of the public, including news agencies and competitors. Respondents claiming a statutory exception to the Indiana Public Records Act must place all confidential documents (including the requisite number of copies) in a sealed envelope clearly marked "Confidential" and must indicate in the transmittal letter and on the outside of that envelope that confidential materials are included. The respondent must also specify which statutory exception provision applies. PERF reserves the right to make determinations of confidentiality. If PERF does not agree that the information designated is confidential under one of the disclosure exceptions to the Indiana Public Records Act, it may either reject the proposal or discuss its interpretation of the allowable exceptions with the respondent. If agreement can be reached, the proposal will be considered. If agreement cannot be reached, PERF will remove the proposal from consideration for award and return the proposal to the respondent. PERF will not determine prices to be confidential information.

1.8 RFP RESPONSE COSTS

PERF accepts no obligations for costs incurred by respondents in anticipation of being awarded a contract.

1.9 PROPOSAL LIFE

All proposals made in response to this RFP must remain open and in effect for a period of not less than 180 days after the due date for proposals. Any proposal accepted by PERF for the purpose of contract negotiations shall remain valid until superseded by a contract or until rejected by PERF.

1.10 TAXES

PERF is exempt from federal, state, and local taxes. PERF will not be responsible for any taxes levied on the respondent as a result of any contract resulting from this RFP.

1.11 SECRETARY OF STATE REGISTRATION

In accordance with IC 5-22-16-4, before an out-of-state respondent can do business with PERF, the respondent must be registered with the Indiana Secretary of State. If an out-of-state respondent does not have such registration at present, the respondent should contact

Secretary of State of Indiana
Corporation Division
402 West Washington Street, E018
Indianapolis, IN 46204
(317) 232-6576

for the necessary application form. It is each respondent's responsibility to register prior to the initiation of any contract discussions.

1.12 DISCUSSION FORMAT

PERF reserves the right to conduct discussions, either oral or written, with those respondents determined by PERF to be reasonably viable to being selected for award. PERF also reserves the right to conduct clarifications to resolve minor issues.

1.13 SUMMARY OF MILESTONES

The following is the expected timeline for the RFP.

<u>ACTIVITY</u>	<u>COMPLETION DATE</u>
Notice is published	March 31, 2003
RFP published/released	March 31, 2003
Respondent's inquiry period begins	March 31, 2003
Respondent's inquiry period ends	April 10, 2003
Proposal submission deadline	April 15, 2003
Recommendations to Board	June 2003
Board selection	June 2003
Notify selected respondent	June 2003
Contract execution by PERF	July 2003
Manager is funded	July 2003

SECTION TWO PROPOSAL PROCEDURES

2.1 CONTACTS

Pursuant to PERF's Investment Procurement Policy; Procurement Procedure-Request for Proposals § (f), as adopted by the Board, and attached hereto as Exhibit B, no member of the Board, employee of the Fund, or consultant or advisor to the Fund shall have any communications with a respondent or a representative of a respondent about the respondent's proposal or request for proposal after publication and before final selection, except as otherwise provided in Sections 1.12 and 2.3. Such unauthorized communication(s) may disqualify respondent from further consideration. The Fund reserves the right to discuss any part of any response for the purpose of clarification. Respondents will be given equal access to any communications about the request for proposal between the Fund and other respondents.

2.2 PRE-PROPOSAL CONFERENCE

It is the decision of the Board that no pre-proposal conference is required for this RFP.

2.3 INQUIRIES ABOUT THE RFP

All inquiries and requests for information affecting this RFP must be submitted in writing by e-mail and hard copy to:

Ms. Scarlett Ungurean
Mercer Investment Consulting, Inc.
10 South Wacker Drive, Suite 1700
Chicago, IL 60606-7485
E-mail –scarlett.ungurean@mercerc.com
(Addressing is not case sensitive)

no later than April 10, 2003. PERF and Consultant reserve the right to judge whether any questions should be answered in writing and copies will be distributed to all prospective respondents who are known to have received a copy of the original RFP.

2.4 RESPONDENT SITE VISITS

PERF may request a site visit to a respondent's working support center to aid in the evaluation of the respondent's proposal.

2.5 CONTRACT AWARD

Based on the results of this process, the qualifying proposal determined to be the most advantageous to PERF, taking into account all of the evaluation factors, may be selected by PERF for further action, such as contract award. If, however, PERF decides that no proposal is sufficiently advantageous to PERF, PERF may take whatever further action is deemed best in its sole discretion, including making no contract award. If, for any reason, a proposal is selected and it is not possible to consummate a contract with the respondent, PERF may begin contract preparation with the next qualified respondent or determine that it does not wish to award a contract pursuant to this RFP.

PERF reserves the right to reject any or all proposals received or to award, without discussions or clarifications, a contract on the basis of proposals received. Therefore, each proposal should contain the respondent's best terms from a price and technical standpoint.

SECTION THREE LENGTH OF CONTRACT AND PRICING

3.1 LENGTH OF CONTRACT

Term of this contract shall be for a period of not more than five (5) years, beginning July 1, 2003, (or from date of final Board approval of contract). There may be renewals for a total of five (5) more years at PERF's option.

3.2 PRICING

PERF requests the pricing associated with this RFP be a firm proposal price that must remain open and in effect for a period of not less than 180 days from the proposal due date. Pricing should be quoted in basis points. A pricing schedule should be presented covering all placement sizes between the ranges specified in the above RFPs and represent each respondent's lowest fee schedule currently in effect for comparable mandates.

SECTION FOUR PROPOSAL PREPARATION INSTRUCTIONS

4.1 GENERAL

To facilitate the timely evaluation of proposals, a standard format for proposal submission has been developed and is documented in this section. All respondents are required to format their proposals in a manner consistent with the guidelines described below:

- Each item must be addressed in the respondent's proposal or the proposal may be rejected.
- Transmittal letter should be in the form of a letter. ***The name and number of the search to which a respondent is responding and the specific strategy name, as it is listed in the Consultant's database, www.mercergimd.com, must be included on the***

first page of the Letter of Transmittal at the top of the page. The business proposal must be organized under the specific section titles as listed below.

PERF may, at its option, allow all respondents a two-calendar-day period to correct errors or omissions to their proposals. Should this necessity arise, PERF will contact each respondent affected. Each respondent must submit written corrections to the proposal within five calendar days of notification. The intent of this option is to allow proposals with only minor errors or omissions to be corrected. Major errors or omissions, such as the failure to include prices, will not be considered by PERF as a minor error or omission and may result in disqualification of the proposal from further evaluation.

A complete proposal will include the following:

1. Hard copy submission of a transmittal letter (with the information in Section 4.2)
2. Hard copy submission of a Business Proposal (with the information and attachments described in Section 4.3)
3. Electronic completion of the data base described in Section 4.4

4.2 TRANSMITTAL LETTER [MUST BE SUBMITTED IN HARD COPY FOR EACH RFP]

Each Transmittal Letter must address the following topics:

4.2.1 Identification

Transmittal letter must identify the official investment product name being proposed, as it is listed in the Consultant's database for the product that a respondent desires to supply. This information must be located on the first page of the Transmittal Letter at the top of the page.

4.2.2 Summary of Ability and Desire to Supply the Required Services

Transmittal letter must briefly summarize the respondent's ability to supply the requested services. The letter must also contain a statement indicating the respondent's willingness to provide the requested services subject to the terms and conditions set forth in the RFP including, but not limited to, PERF's contract clauses.

4.2.3 Signature of Authorized Representative

A person authorized to commit the respondent to its representations must sign the transmittal letter. Respondent personnel signing the Transmittal Letter of the proposal must be legally authorized by the organization to commit the organization contractually. This section must contain proof of such authority. A copy of corporate bylaws or a corporate resolution adopted by the board of directors indicating this authority will fulfill this requirement.

4.2.4 Other Information

Any other information the respondent may wish to briefly summarize will be acceptable.

4.3 BUSINESS PROPOSAL [MUST BE SUBMITTED IN HARD COPY]

The Business Proposal must contain the following items:

4.3.1 ADV Form Parts I and II

This section must include the most recent ADV Form Parts I and II.

4.3.2 Contract

Appendix One (1) of this RFP is the contract that will be used if an award is made pursuant to this RFP. A signed copy of the contract must be returned with your response. The response will be rejected if a signed copy is not in your response. The signed contract will only become final once it is signed by PERF. As part of the submission, provide a fee schedule in Attachment B of the contract.

Any or all portions of this RFP are incorporated by reference as an addendum to the final contract.

If a respondent wants to include or change any term of the contract, it must be submitted as an amendment to the contract; see next section for more instructions on this.

4.3.3 Respondent Contract Requirements

If a respondent wishes to include or change any language in the contract being submitted, proposed language should be included in this section, in the form of an amendment to the contract in 4.3.2. For each change included, the respondent should indicate that the change is required by the respondent in any contract resulting from this RFP and why it is required (if the required change is unacceptable to PERF, the respondent's proposal may be considered unacceptable) or indicate that the change is desired (but not required) by the respondent in any contract resulting from this RFP.

4.3.4 References

Respondent should include a list of at least three (3) clients for whom the respondent has provided products and services that are the same or similar to those products and services requested in the RFP. Any state government or pension fund for whom the respondent has provided these products and services should be included; also to be included should be clients with locations near Indianapolis, as site visits may be arranged. ***Information provided should include the name, address, and telephone number of the client facility and the name, title, and phone/fax numbers of a person who may be contacted for further information.***

4.3.5 Registration to do Business

Respondents proposing to provide services required by this RFP are required to be registered to do business within the state by the Indiana Secretary of State. The address contact information for this office may be found in Section 1.11 of this RFP.

This process must be concluded prior to contract negotiations with PERF. It is the successful respondent's responsibility to complete the required registration with the Secretary of State. The respondent must indicate the status of registration, if applicable, in this section of the proposal.

4.3.6 Surety Bonds

Respondent must list their carrier of fiduciary liability and errors and omissions insurance and subscribed coverage amounts, and provide for a fidelity bond. Surety requirement amounts are noted in PERF's Investment Policy attached as Exhibit A.

4.3.7 Subcontractors

Respondent must list any subcontractors that are proposed to be used in providing the required services. The subcontractor's responsibilities under the proposal, the subcontractor's form of organization, and an indication from the subcontractor of a willingness to carry out these responsibilities are to be included for each subcontractor. This assurance in no way relieves the respondent of any responsibilities in responding to this RFP or in completing the commitments documented in the proposal.

4.4 ELECTRONIC PROPOSAL [MUST BE SUBMITTED ELECTRONICALLY ONLY]

The respondent must complete electronically the Consultant's database information described in Section 1.4.

SECTION FIVE PROPOSAL EVALUATION

PERF and Consultant intend to use the criteria hereto attached as Exhibit C. In addition, they will consider other factors they believe to be material to the selection procedure.

PUBLIC EMPLOYEES' RETIREMENT FUND

INDIANA



INDIANA PUBLIC EMPLOYEES' RETIREMENT FUND

RESTATEMENT OF INVESTMENT POLICY

Originally Adopted September 12, 1997
Last Restated November 8, 2002

DEFINITIONS

Definitions of the following terms will be found on the pages of the Policy shown below.

<u>TERM</u>	<u>PAGE</u>
Annuity Savings Account	4
Board	3
Consultants	10
Custodian	10
Executive Director	9
Investment Manager	10
PERF	3
Portfolio	19
Staff	9

INTRODUCTION

Description of PERF

The Indiana Public Employees' Retirement Fund ("PERF") was established in 1945, to provide retirement, disability, death, and termination benefits to present and former members and their beneficiaries who meet the statutory requirements for such benefits. Members include employees of the State and employees of other governmental units who have adopted resolutions joining PERF (including cities, towns, counties, and other governmental units). Pursuant to Indiana law and the Internal Revenue Code, PERF must be operated for the exclusive benefit of, and solely in the interest of, members and their beneficiaries. PERF is required by Indiana law to meet all rules applicable to a qualified plan under Section 401 of the Internal Revenue Code, in order to provide the ensuing tax advantages to its members. In addition, PERF is a trust, exempt from taxation under Section 501 of the Internal Revenue Code. PERF is also governed by Indiana statutes and administrative rules. Among the governing Indiana statutes is the requirement that PERF be funded and maintained on an actuarially sound basis. See IC 5-10.2 and IC 5-10.3.

Description of Other Funds Subject to Board Control

The Board of Trustees of PERF (the "Board") is also charged with the administration and trusteeship of the following plans:

1. The 1977 Police Officers' and Firefighters' Pension and Disability Fund. See IC 36-8-8. This Fund provides retirement, death and disability benefits (as established by law) for municipal firefighters and police officers hired on and after May 1, 1977, and their beneficiaries. It is funded through member contributions and an actuarially sound state-wide employer contribution rate.
2. The Judges' Retirement System, which includes the Judges' 1977 Benefit System and the Judges' 1985 Benefit System. See IC 33-13-8, 33-13-9.1, and 33-13-10.1. This System provides retirement, death and disability benefits for all eligible judges. It is not actuarially funded and operates on a pay-as-you-go basis. Judges contribute 6% of their salary to the System.
3. The Legislators' Retirement System, which includes the Legislators' Defined Benefit Plan and the Legislators' Defined Contribution Plan. See IC 2-3.5, IC 2-3.5-4, and IC 2-3.5-5. The Legislators' Defined Benefit Plan provides a unit benefit for years of service in the General Assembly prior to May 1989. That plan covers a "closed" group of members and a "closed" liability, in that no individuals elected to the General Assembly after April 1989 earn any benefit under this plan, and no years of service after April 1989 count for benefit accrual for anyone who is participating in that plan. The Legislators' Defined Contribution plan is a money purchase plan, with a fixed member contribution of 5% and a fixed state contribution of 20% each year. Those contributions go into a separate account for each member, which then provides an account balance payable under various circumstances (termination, death,

disability or retirement).

4. The Excise Police and Conservation Enforcement Officers' Retirement Plan. See IC 5-10-5.5. The plan provides retirement, death and disability benefits for all eligible excise police and conservation officers. It is funded on an actuarially sound basis (with a 40 year amortization of the unfunded accrued liabilities). The members pay 3% of the first \$8,500 of their salary, and the state funds the balance.
5. The Prosecuting Attorneys Retirement Fund. See IC 33-14-9. This fund provides retirement, death and disability benefits for all prosecuting attorneys, chief deputy prosecuting attorneys, state paid deputy prosecuting attorneys and certain positions in the prosecuting attorneys council. It is funded on an actuarially sound basis. The members pay 6% of their salary and the state pays the remaining amounts, as actuarially determined.

In addition, the Board is charged with administering the Pension Relief Fund, a separate fund created to provide benefits for eligible police officers and firefighters and their beneficiaries under the 1925 Police Pension Fund (see IC 36-8-6), the 1937 Firefighters Pension Fund (see IC 36-8-7), and the 1953 Police Pension Fund (see IC 36-8-7.5). These funds provide retirement, death and disability benefits for eligible individuals hired before May 1, 1977, as established by state law and local ordinances and decisions. The Pension Relief Fund is funded from proceeds from the state lottery, certain alcohol and tobacco taxes, and additional appropriations. There is a significant funding deficiency remaining at the city and town level under the three funds (the 1925 Police Pension Fund, the 1937 Firefighters Pension Fund and the 1953 Police Pension Fund) even though the covered population is "closed" as of May 1, 1977. The Pension Relief Fund relieves some of that deficiency by releasing dollars to cities and towns to cover benefits, through two release formulas.

PERF Annuity Savings Account

The Annuity Savings Accounts are bookkeeping accounts established for each member of PERF. The member's account is credited with the member's 3% contribution (whether paid by the member or "picked-up" by the employer). The member has limited investment direction to several alternative funds or may leave their account in the "guaranteed fund." The guaranteed fund affords the member a "passbook savings"-like or "risk free" protection on all contributions credited to that member's account, plus all previously credited interest (at an interest rate determined by the Board each year). Legislation has been enacted that will substantially enhance the members' investment direction opportunities. These accounts produce an additional separate benefit from the fixed-formula employer-funded pension benefit.

Description of Primary Statutory Investment Provisions

The Indiana General Assembly recently enacted the prudent investor standard to apply to the Board and govern all its investments. See PL 37-1996. In doing so, the General Assembly noted the following:

Whereas, the general assembly also believes that a prudent diversification of investments by public retirement funds is an essential element of a stringent investment standard for such funds and is critical for the future; and

Whereas, the general assembly finds that numerous actuarial studies of retirement funds in Indiana and other states have demonstrated that, due to the long term nature of the investments made by public retirement funds, diversification of such investments in a responsible manner reduces risk, increases income, and improves security for such funds, while a lack of diversification results in reduced income and increased risk to the retirement funds, while creating a substantial additional burden for the taxpayers who ultimately bear the burden of providing the assets for such funds in the absence of sufficient investment income; and

Whereas, the general assembly desires to pass a diversification rule patterned after the stringent federal law applicable to private plans, which will provide that the trustees of each fund must diversify the investments of their fund so as to minimize the risk of large losses.

Thus, the primary governing statutory provision is that the Board must "invest its assets with the care, skill, prudence, and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims." The Board is also required to diversify such investments in accordance with prudent investment standards. See IC 5-10.3-5-3.

Other Restrictions on Investments

Other pertinent investment requirements in the Indiana statute include the following:

- A. Fund investments must be held for the Fund by banks or trust companies under a custodial agreement or agreements. IC 5-10.3-5-4(a). All Custodians must be located in Indiana. IC 5-10.3-5-5.
- B. The Treasurer of the State must receive all Fund deposits (e.g., income, interest, receipts, etc.). IC 5-10.3-5-4(a).
- C. [Deleted by House Enrolled Act 1093 (1999).]
- D. The Board may not engage in any prohibited transaction, as described in Section 503(b) of the Internal Revenue Code. IC 5-10.2-2-1.5(9).

A legal opinion dated May 19, 1997 from Fund counsel analyzes the Board's authority to make investments under the Indiana Constitution and concludes that there are no constraints under Section 12 of Article XI of the Indiana Constitution on the Board's authority to invest.

Background of Investment Policy

The Board has maintained an investment policy for many years. That policy has been amended and restated from time to time as the Board deemed appropriate. The Board adopted a set of guiding principles on November 15, 1996, as well as Investment Policy Goals and Guidelines. The Board determined it was appropriate to completely restate its policy to incorporate appropriate principles, and to reflect the extensive work done by the Board following passage of Senate Enrolled Act 69 (the prudent investor standard) and Question 2 (the equity referendum on the November 1996 Indiana ballot to allow equity investments). That restatement was dated September 12, 1997, and the Board has subsequently amended that restatement. The Board wishes to restate its policy to reflect those amendments, changes in applicable law, as well as other amendments it believes appropriate.

The Board intends this Policy to augment the governing laws, and supersede all prior statements of policy, principles and guidelines. This Policy is binding on all persons with authority over Fund assets, including Investment Managers, Custodians, Consultants, Staff, and the Board, as well as any other person who could have a relationship with the Fund.

Scope of Investment Policy

This Policy covers all assets under the Board's control except to the extent the following are specifically addressed in an Addendum:

- The Annuity Savings Accounts in PERF
- The Pension Relief Fund

References in the balance of this Policy to "Fund" will include all assets under the Board of Trustees' control except to the extent appropriate for the assets listed in the preceding paragraph.

SECTION 1. PURPOSE OF POLICY

The purpose of the Investment Policy is to:

Set forth the investment policies which the Board judges to be appropriate and prudent, in consideration of the needs of the Fund, legal requirements applicable to the Fund, and to direct investment of the Fund's assets.

Establish criteria against which the Investment Manager(s) are to be measured.

Communicate the investment policies, objectives, guidelines, and performance criteria of the Board to the Staff, Investment Managers, Consultants, and all other interested parties.

Serve as a review document to guide the ongoing oversight of the investment of the Fund.

Demonstrate that the Board is fulfilling its fiduciary responsibilities in the management of the investments of the Fund solely in the interests of members and beneficiaries of the Fund.

The Board does intend this Policy to be a dynamic document, and, as such, expects to review it periodically. The Board anticipates that changes will be made from time to time to reflect experience, investment product changes, benefit and structural changes, performance and economic conditions.

SECTION 2. STATEMENT OF GUIDING PRINCIPLES

The Board has adopted a set of guiding principles for oversight and management of Fund investments. They are as follows:

Investment of Fund assets will be delegated to Investment Managers pursuant to Section 14.

The Board will employ Investment Managers with understandable, clearly defined investment strategies pursuant to Section 8.

The Board will not time the markets in making investment related decisions, consistent with the fact that the Fund is a long term investor.

The Board will manage the investment of the assets in a cost effective manner.

The Board prefers to employ Investment Managers that maintain fully invested positions rather than using cash equivalent or short term investments as a strategy alternative.

The Board will maintain a prudent investor profile, consistent with its fiduciary responsibility to invest the assets solely in the interests of its beneficiaries.

Initial equity investments will be accomplished by a measured movement toward allocation targets over a three-year period.

The priority of all investments will be consistent with optimizing diversification benefits.

The Boards intends to incorporate risk management concepts focused on moderating or controlling, to the extent reasonable and practical, risks normally associated with investment.

The Board realizes that the plans under its trusteeship may have different funding positions and needs, different population demographics, and different time horizons, which may create different investment needs or requirements.

SECTION 3. RESPONSIBLE PARTIES AND THEIR DUTIES

Board of Trustees

The Board is the body of persons whose role is to oversee all aspects of the operation of the Fund. The Board is appointed by the Governor for a four year term, pursuant to IC 5-10.3-3-1. At least one Board member must be a Fund member with at least ten years of service, and not more than three Board members may be members of the same political party. The Board members are fiduciaries of the Fund. Their responsibilities with respect to the assets of the Fund include

completing each of the duties below as a prudent investor:

Set the policies, objectives, and guidelines for the investment of the assets of the Fund.

Study issues affecting the investment of the Fund so as to make educated and prudent decisions concerning this Policy.

Select qualified professionals to assist in the implementation of this Policy.

Evaluate the Fund's performance and compliance with this Policy.

Review compliance with applicable state and federal laws.

Evaluate performance of investment professionals and staff.

Staff of Fund

The Staff are those persons employed by the Fund. The Board has the authority to set compensation of the Staff. Staff duties are to administer the Fund in line with the policies and decisions of the Board and the provisions of governmental law and to provide input for the Board so that issues can be studied fully prior to any Board decision. In addition, Staff is responsible for interacting with the legislature, serving the needs of Fund members, and managing the Fund's relationships with outside professionals and other constituencies.

Executive Director

The Executive Director, a member of the Staff, is appointed by the Board, subject to the approval of the Governor. The Executive Director acts on behalf of the Board, and is responsible for performing duties as assigned by the Board, as well as for receipt of payments and deposits to the Fund, and payments from the Fund.

Investment Manager

An Investment Manager is a person(s), firm, corporation, bank or insurance company who is retained to manage a portion of the assets of the Fund under specified guidelines. Such Investment Managers will be registered as investment advisors under the Investment Advisors Act of 1940 and Securities Exchange Commission Acts, unless exempted from registration by the SEC (i.e., banks and insurance companies and affiliates).

Custodian

A Custodian for the Fund is a bank or trust company located in Indiana which is retained by the Board. A Custodian may be authorized to (1) hold securities and other investments in the name of the Fund, in the name of a nominee of the Custodian, or in bearer form; (2) collect and receive income, interest, proceeds of sale, maturities, investments, deposit all these receipts in a custodian account or checking account as instructed by the Board, and reinvest these receipts as directed by the Board; (3) maintain accounting records and prepare reports which are required by the Board and the State Board of Accounts; (4) perform other services for the Board as are customary and appropriate for custodians; and (5) if retained, to conduct any analysis required by the Board.

Consultants

Consultants are persons or firms who are retained by the Board for the Fund and responsible for providing investment advice to the Fund, based upon their expertise and their analysis of the issues under consideration.

SECTION 4. CODE OF ETHICS

Fiduciary Responsibility

The members of the Board recognize that they serve as fiduciaries of the Fund. One of their primary responsibilities is the prudent investment of Fund assets. Thus, the Board shall exercise the care, skill, prudence and diligence that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims. The Board must also diversify the investments of the Fund in accordance with prudent investment standards. See IC 5-10.3-5-3. The Board has a duty of undivided loyalty, and must be impartial in the exercise of such duty, to the beneficiaries of the Fund, as all Fund assets must be used for the exclusive benefit of the Fund's covered members and their beneficiaries. No part of the corpus or income may be used for or diverted to any purpose other than for the "exclusive benefit" of the members or their beneficiaries. See IC 5-10.2-2-1.5. The Board may not engage in any transactions prohibited by Section 503(b) of the Internal Revenue Code. See IC 5-10.2-2-1.5(9). Board members or anyone acting on their behalf must comply with these provisions.

Compliance with Code of Ethics

Board members recognize that they are governed by a strict code of ethics. Because they believe that public confidence in the Board's integrity is essential not only for members of the Fund, but also for the public and taxpayers of the State of Indiana as well, they wish to ensure that their actions conform not only with the letter of the law but also with the spirit of the law. As such, the Board has adopted an Ethics Policy.

As to any other person (including, but not limited to, Consultants, Custodians, Investment Managers), the Indiana Code of Ethics provides:

- It shall be unlawful for any person, other than employees performing their duties in making payments to employees as provided by law, to pay, or offer to pay, any employee any compensation for the performance of his official duties. See IC 4-2-6-5. Compensation includes any money, thing of value, or financial benefit. See IC 4-2-6-5.

Conflict of Interests Rules

Board members recognize that all Fund transactions and selections are to be based on the integrity and competence of the parties with whom the Fund is dealing and upon financial merit and benefit to Fund members and their beneficiaries, and not on personal relationships. Board members shall never act where there may be a conflict of interest or appearance of conflict of interest. They realize they occupy special positions of fiduciary trust and confidence such that each member must studiously and conscientiously avoid any reasonable appearance of conflict. A conflict of interest is understood to be presented in a situation wherein a relationship exists which could reasonably be expected to diminish independence or judgement in performance of official responsibilities as a Board member. Accordingly, a Board member shall not engage in conduct that constitutes or involves a conflict of interest. It is the Board member's duty to determine if a potential conflict of interest exists, to avoid the conflict, if possible, or, where applicable, to disclose a conflict. If a Board member determines that a conflict of interest or potential conflict of interest exists, that individual shall have an obligation to recuse themselves from participating in the matter. The Board member shall disclose the reason for any such recusal.

- **Voting**

Board members should not participate in a discussion or vote on a matter in which they have a direct or indirect significant financial interest. However, this prohibition does not arise in connection with a matter which would have an insignificant economic effect on any interest of the Board member, or which affects the member only as a member of the general public or of a subgroup of the general public, such as members of the Fund as a whole.

- **Disclosure**

1. Any person who serves on the Board shall fully disclose any substantial interest in any entity in which an investment has been made with monies of the Fund.
2. Board members shall disclose any significant business relationship they have with any vendors or prospective vendors serving or considered for service to the Fund.

Specific Board Rules of Conduct

In furtherance of the general principles stated above, the Board has adopted the following specific rules.

- **Contact with Investment Managers**

It is the Board's policy that all contact with Investment Managers or others seeking a business relationship with the Fund should be directed to the Executive Director and Staff, not to individual Board members. For example, during a manager, consultant or other professional search process, it is the Board's policy that no contact with prospective bidders and individual Board members is appropriate. However, the Board recognizes three exceptions to this general rule. First, this rule is not applicable to circumstances arising in the ordinary course of business of an individual that is unrelated to the individual's status as a Board member. Second, this rule is not applicable to contacts relating to Board business with Investment Managers and Consultants with whom the Board has an existing fiduciary relationship. For example, Board members are encouraged to contact an existing Investment Manager with any questions or concerns they might have with respect to a specific investment directed by that Investment Manager. Third, any other casual incidental contact with an existing or prospective Investment Manager or Consultant that a Board member has, not directed to specific Fund matters, should be disclosed to the Executive Director.

- **Gifts**

A Board member may not accept for personal use any gifts, favors, services, entertainment, food or drink valued at a total of more than \$25.00 in a calendar year from a person or business that is seeking or actually has a business relationship with the Fund. However, it is understood that this prohibition is not applicable to circumstances arising in the ordinary course of business of an individual that is unrelated to his or her status as a Board member.

- **Speaking Engagements**

A Board member may not accept any expenses, reimbursement, or honorarium for any speeches or presentations made in his or her capacity as a Board member. This rule does not apply to circumstances where the individual is speaking or presenting in a capacity unrelated to Board membership or as to which Board membership is simply recognized as a part of such member's professional experience.

Conferences and Educational Activities

Board members are encouraged to attend appropriate educational conferences and meetings to assist them in performing their duties. It is the Board's policy to reimburse Board members for expenses related to such activities. The Executive Director will serve to coordinate attendance and administer reimbursement, subject to any required procedure.

Responsibilities of Investment Managers and Consultants

In order to accomplish these objectives, each Investment Manager and Consultant retained by the Fund shall be notified in writing of the Board's Code of Ethics and the related Conflict of Interest laws of the State of Indiana, and of the Board's adoption of this Code. All Investment Managers shall strictly conform to the Board's Code of Ethics. Any suggestion or offer to deviate from these provisions made by a Board member or Staff member shall be reported by the Investment Manager or Consultant, in writing, to all members of the Board.

The Board recognizes that Investment Managers and Consultants have every right as citizens to participate in the political process both individually or corporately. However, the Board believes that it is inappropriate and improper for members of the Board to solicit contributions or support of specific candidates from any Investment Managers, Consultants or Staff. Any such incidents should be reported, in writing, by the Investment Manager or Consultant to all members of the Board.

All Investment Managers, Consultants and other persons retained in any capacity which have fiduciary responsibilities are expected to abide by the provisions of the Board's Code of Ethics.

SECTION 5. GENERAL OBJECTIVES

The investment activities are to be designed and executed in a manner that serves the best interests of the members and beneficiaries of the Fund.

The investment activities are designed to provide a return on Fund assets that, when coupled with the periodic contributions of the membership and employers, will meet or exceed the benefit funding requirements of the Fund. Of primary consideration is the maintenance of funding which is adequate to provide for the payment of the plans' actuarially determined liabilities over time, at a reasonable cost to the members and the taxpayers of the State.

The Board has the authority and intends to establish allocations to various asset classes and subcategories as described in Section 6, subject to general and specific guidelines established in Section 8. Evaluation of Investment Manager performance and total Fund performance will be done pursuant to Sections 7 and 13.

SECTION 6. ASSET ALLOCATION

The Board recognizes that the allocation of assets, particularly the broadly-defined mix between stocks and bonds, is the most important determinant of investment rates of returns over long periods of time.

Background Information

To guide their selection of the best asset mix, the Board considered the linkage of liability projections with asset projections over future time periods. Key factors were the “Employers’ Contributions as a Percentage of Pay” and the “Funded Ratios” which would be necessary to provide the promised benefits to Fund beneficiaries.

Selected Allocations

The following asset classes, target norms, and allowable ranges have been established.

<u>Asset Classes</u>	<u>Target Norm</u>	<u>Allowable Range</u>
Domestic Equities	53%	50-60%
International Equities	10%	5-15%
Fixed Income	32%	30-40%
Alternative Assets	5%	0-5%

Within each asset class, the Board in its discretion may establish subcategories, and the Board also may establish the mix between active Investment Managers and passive index Investment Managers.

Rebalancing

The Board has determined that tactical asset allocation in anticipation of expected future market fluctuations is not in the best interest of the Fund.

However, differential market returns may from time to time cause some allocations to move to the upper or lower ends of their allowable ranges. Consequently, the Board will monitor no less than quarterly the actual positions, and will engage in strategic asset reallocation from one class to another whenever they deem it appropriate to do so.

Review

The asset allocation will be reviewed periodically, but no less frequently than every three years. Asset liability modeling studies will be conducted as the Board determines necessary.

SECTION 7. INVESTMENT PERFORMANCE STANDARDS

Introduction

The Board recognizes the need to evaluate the investment performance of the Investment Managers who have been delegated the duty to invest the assets of the Fund, and further recognizes that Investment Managers are under a strict fiduciary duty to the Fund. Further, the Board recognizes the need to evaluate the performance of the total Fund. Therefore, the Board wishes to establish clear standards for execution of this fiduciary duty. The Board intends to evaluate the performance of each Investment Manager pursuant to Section 13.

Performance Evaluation Factors for Total Fund

The key factors to be used in the analysis of the investment performance of the total Fund include:

- The funded status of the Fund.
- Investment rate of return and volatility of the Fund, compared with a weighted average of market indexes which best describe the Fund's allocation.
- Investment rate of return of the Fund, compared with other large private and public pension funds with special emphasis on other large public funds.

Performance Evaluation Factors for Investment Managers

The key comparative factors to be used in the analysis of the performance of an Investment Manager include:

- Investment rates of return of the Investment Manager compared to an appropriate market index benchmark.
- Investment rates of return of the Investment Manager compared to an appropriate universe or style peer group.
- The volatility of the investment rates of return of the Investment Manager compared to the volatility of an appropriate market index benchmark.

Rates of return for an Investment Manager will be calculated based on the total of the Investment Manager's allocation of Fund assets.

Volatility will be measured by the standard deviation of the historical series of rates of return over a period of not less than three years.

Compliance with the Fund's guidelines applicable to the particular asset class under

management will be considered in the evaluation of the Investment Manager's performance within its specific style.

Performance Evaluation Standards

Rates of return will be evaluated on both a gross and net of fee basis. The calculation of the investment rates of return will be consistent with the provisions of Section 13. In order to provide more definition and consistency, one year, three year, five year, and rolling three and five year periods will be used. Rolling periods shall be defined as a three (or five) year period beginning with the earliest reasonable date and including subsequent three (or five) year periods each beginning one year later until the ending date is the end of the current period. If needed to further evaluate investment performance, other time periods may be employed.

The following standards will be used as a guideline for the evaluation of the investment performance of the Investment Managers:

- Gross of fee rates of return ranking at or above the median of an appropriate universe or style peer group of investment managers, on one year, three year, and rolling three year periods.
- Net of fee rates of return exceeding an appropriate market index benchmark, on three year, rolling three year, five year and rolling five year periods.
- Risk — adjusted rates of return exceeding an appropriate market index benchmark, on a three year, rolling three year, five year and rolling five year periods.
- Volatility consistent with the assigned asset class, and relative to the appropriate market index benchmark, on three year, rolling three year, five year and rolling five year periods.

SECTION 8. INVESTMENT GUIDELINES

General Guidelines for Investment Managers

Each Investment Manager retained to manage a portion of the assets (the Investment Manager's "Portfolio") of the Fund shall be aware of and operate within this Investment Policy and governing Indiana statutes. Subject to the guidelines in this Section and the policies documented in this Statement, any Investment Manager retained by the Fund is to have full discretionary investment authority over the assets said Investment Manager is responsible for managing.

As fiduciaries of the Fund, all Investment Managers (regardless of type of investment) will discharge their duties solely in the interests of the Fund's members and beneficiaries and with the care, skill, prudence, and diligence that an expert would use on his/her own behalf. In addition, the Investment Managers shall observe the following rules:

- **Specific Limitation on Holdings.** The purchase of securities of any one issuer (with the exception of the US Governmental and its agencies) shall be limited to an initial cost of 5% of the market value of an Investment Manager's Portfolio. Through capital appreciation, no such holding should exceed 7.5% of the market value of the total holdings of such Investment Manager's Portfolio, unless the Board approves an exception.

For managers contracted to manage a concentrated portfolio, the purchase of securities of any one issuer (with the exception of the US Governmental and its agencies) shall be limited to an initial cost of 7.5% of the market value of an Investment Manager's Portfolio. Through capital appreciation, no such holding should exceed 15% of the market value of the total holdings of such Investment Manager's Portfolio, unless the Board approves an exception.

- **Securities Trading.** Each Investment Manager is to immediately send copies of each transaction record to the Fund, its Custodian(s), and any designated agent of its Custodian(s). Each Investment Manager is further required to reconcile the account(s) under its management on a timely basis each month with the Custodian(s). Each Investment Manager is responsible for complying fully with the Fund's policies for securities trading and selecting brokerage firms.
- **Acknowledgments of Legal Compliance.** Each Investment Manager retained by the Fund must be a person, firm, or corporation registered as an investment adviser under the Investment Advisors Act of 1940; a bank as defined in such Act; or an insurance company qualified to do business in more than one state, and must acknowledge its fiduciary responsibility in writing. SEC registered firms will be expected to provide a copy of the SEC ADV Form Section II on an annual basis.
- **Acknowledgments of Receipt.** All Investment Managers shall acknowledge in writing their receipt of this Policy and their agreement to abide by its terms. All

Investment Managers shall have an affirmative duty to bring suggestions for modification or change of the Policy to the Board.

- **Fiduciary Liability Insurance.** Each Investment Manager will obtain fiduciary insurance coverage, in which the Fund is a named insured party, with a minimum of \$5 Million coverage, or in such higher amount as required by the Board from time to time. Each Investment Manager shall annually provide written evidence of such coverage. The Executive Director may approve alternative fiduciary liability insurance arrangements, if in the judgment of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.
- **Errors and Omission Coverage.** Each Investment Manager will obtain errors and omission coverage, with minimum of \$5 Million coverage, or in such higher amount as required by the Board from time to time. Each Investment Manager shall annually be required to provide written evidence of such coverage. The Executive Director may approve alternative errors and omissions coverage, if in the judgement of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.
- **Fidelity Bond.** Each Investment Manager will obtain a fidelity bond, with a minimum of \$3 Million coverage, or in such higher amount as required by the Board from time to time. Each Investment Manager shall annually be required to provide written evidence of such coverage. The Executive Director may approve alternatives to a fidelity bond, if in the judgement of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.
- **Proxy Voting.** Each Investment Manager will abide by the Fund's Proxy Voting Policy as stated in Section 12 of this Statement. Each Investment Manager will provide an annual report of proxy voting activity to the Fund consistent with the requirements of Section 12.
- **Conflicts of Interest.** An Investment Manager shall be subject to the applicable provisions of Section 4 of this Statement. An Investment Manager through its actions on behalf of the Fund shall not invest any part of the Fund with itself or with any person or entity with which or in which it has any economic interest, unless such Investment Manager receives prior written approval from the Board. This limitation shall be construed so as to avoid any possibility of self-dealing or conflict of interest. In addition, no Investment Manager, through its actions on behalf of the Fund, shall act or receive compensation as a broker, dealer, underwriter, or principal whether directly or through a related or an affiliated entity, unless such Investment Manager receives prior written approval from the Board.

- **Prohibited Securities and Transactions.** Except as otherwise authorized by the Board, the following transactions shall be prohibited:
 - Short sales of any kind
 - Purchases of letter or restricted stock
 - Buying or selling on the margin
 - Purchases of futures and options, except where specifically noted in Specific Guidelines
 - Purchases of derivative securities which have any of the following characteristics: leverage, indexed principal payment, or links to indexes representing investments, unless specifically approved by the Board or as delegated to the Executive Director.
 - Purchases of Interest Only or Principal Only collateralized mortgage obligations
 - Purchases of Guaranteed Investment Contract (GIC's) or Bank Investment Contracts (BIC's)
 - Any transactions giving rise to unrelated business taxable income (excluding current holdings)
 - Any transaction that would be a "prohibited transaction" under the Internal Revenue Code Section 503
 - Purchases of precious metals
 - Purchases of commodities
 - Purchases of inverse floaters
- **Correction of Violations.** In the event a violation of the guidelines occurs, unless otherwise approved by the Executive Director in writing, based upon a determination of the best interests of the Fund, the violation:
 - Shall be corrected immediately by sale as soon as practicable following detection and notification, unless the Executive Director has agreed in writing to a correction which does not result in immediate disposition or sale
 - Shall result in the reimbursement of the Fund by the Investment Manager for any losses which may have been incurred due to the violation
 - Shall result in the Fund retaining any gains which are realized from the violation
 - May be grounds for termination by the Board

Reporting Procedures for Investment Managers

The Investment Manager shall:

- Prepare a quarterly report to be delivered to the Board and staff which includes those items requested by the Fund, in the format requested by the Fund. These reports should cover any changes in the firm's structure, professional team or product offerings; a review of recent and anticipated investment activities; an analysis of the

major changes which have occurred in the investment markets and in the Portfolio in particular since last report; a summary of the key characteristics of the Portfolio; and other matters as requested by the Fund from time to time. Periodically, the Staff will provide the Investment Manager with a detailed description and format for these reports.

- Make a presentation to the Board, or its designated committee, at least annually and when requested by the Board, describing the professionals, the investment process employed for the Fund's Portfolio under the Investment Manager's responsibility, recent performance of the Portfolio, current investment strategy and outlook, and any other related issues as requested by the Board or its designated committee.
- Meet regularly with the Staff to discuss the management of the Portfolio, new developments and any other related matters.
- Immediately report all instances of economically material events which would affect investment performance of assets held (e.g., default, missed interest payments, violation of bond covenants, or significant business restructuring) to the Board and provide recommendations regarding options for addressing such issues, including withdrawing from the investment or other appropriate actions.
- Advise the Board immediately and in writing if any of the following events occur within the Investment Manager organizations:
 - a loss of one or more key people
 - a significant change in investment philosophy
 - a new portfolio manager(s) or account manager(s) on the Fund's account
 - a change in ownership or control (whether through acquisition, disposition, spin-off, merger, consolidation, or otherwise) or in business focus of the Investment Manager
 - loss of a significant client relationship(s)
 - any other event which could be judged to or deemed to adversely impact to a significant degree the management, professionalism, integrity or financial position of the Investment Manager

General Guidelines for the Investment of the Specific Portfolios

Each Investment Manager will be retained to implement a specific investment strategy for the Fund. This strategy and its underlying philosophy will be described in the Investment Manager's contract and the Portfolio will be managed according to this strategy until such time as the Board and Investment Manager agree in writing to any change.

Generally, the structure of the Fund is expected to include the following asset classes and management strategies:

- domestic equity
 - core index management
 - core enhanced index management
 - core active management
 - style-specific active management
- international equity
 - core index management
 - core enhanced index management
 - core active management
 - style-specific active management
- fixed income
 - core index
 - core enhanced index
 - core active management
 - core opportunistic active management
- real estate
- securities lending cash collateral reinvestment -- specific guidelines for this asset class are covered in an Addendum to this Policy.

Specific Guidelines for Domestic Equity Portfolios

- **Core Index Management**
 - Description: Investment in a portfolio of stocks that substantially matches the return and standard deviation of the benchmark.
 - Investment Constraints: Equity securities, consisting of common stock and American Depositary Receipts (ADRs) listed on U.S. exchanges, that substantially matches the composition and characteristics of the market index benchmark. Futures contracts in the benchmark index may be used for the sole purpose of investing cash flows and may not be used to leverage the Portfolio.
 - Benchmark: See Appendix A
 - Tracking Error: The tracking error of the portfolio is expected to be less than 50 basis points annually. Tracking error is defined as the standard deviation of portfolio excess return related to the benchmark.

- **Core Enhanced Index Management**

- Description: Investment in a portfolio of equity securities, consisting of common stock and American Depositary Receipts (ADRs) listed on U.S. exchanges, that substantially matches the composition and characteristics of the market index benchmark. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary *modestly* from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
- Benchmark: See Appendix A.
- Tracking Error: The tracking error of the portfolio is expected to be less than 300 basis points annually. Tracking error is defined as the standard deviation of portfolio excess returns relative to the benchmark.

- **Core Active Management**

- Description: Investment in a portfolio of equity securities, consisting of common stock and American Depositary Receipts (ADRs) listed on U.S. exchanges, that substantially matches the composition and characteristics of the market index benchmark. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
- Benchmark: See Appendix A.
- Tracking Error: There are no specific guidelines regarding tracking error. However, it is expected that tracking error will be greater than that of "Core Enhanced Index Management" portfolios.

- **Capitalization and Style-Specific Active Management**
 - Description: Investment of a portfolio of equity securities, consisting of common stock and American Depositary Receipts (ADRs) listed on U.S. exchanges, that substantially matches the composition and characteristics of the index benchmark. This benchmark represents the specific market capitalization range, as well as style (e.g., growth or value), as determined by the Board. However, portfolios are expected to vary in terms of number of securities held and, from time to time, may vary from the index as measured by the statistical characteristics (e.g., average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
 - Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities.
 - Benchmark: See Appendix A.
 - Tracking Error: There are no specific guidelines regarding tracking error. However, it is expected that tracking error will be greater than that of "Core Enhanced Index Management" portfolios.

Specific Guidelines for International Equity Portfolio

- **Core Index Management**
 - Description: Investment in a portfolio of equity securities of companies domiciled outside the United States *and listed on foreign exchanges* that substantially matches the composition and characteristics of the market index benchmark. Investment in ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) is permitted.
 - Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. No investments in markets defined by MSCI as "emerging" are allowed unless approved in advance and in writing by the Board.
 - Benchmark: See Appendix A.
 - Tracking Error: The tracking error of the portfolio is expected to be less than 50 basis points annually. Tracking error is defined as the standard deviation

of portfolio excess returns relative to the benchmark.

- Currency Hedging: Currency hedging is prohibited unless approved in advance and in writing by the Board.

- **Core Enhanced Index Management**

- Description: Investment in a portfolio of equity securities of companies domiciled outside the United States *and listed on foreign exchanges* that substantially matches the composition and characteristics of the market index benchmark. Investment in ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) is permitted. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary *modestly* from the index as measured by the statistical characteristics (e.g., country allocation, average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. No investments in markets defined by MSCI as "emerging" are allowed unless approved in advance and in writing by the Board.
- Benchmark: See Appendix A.
- Tracking Error: The tracking error of the portfolio is expected to be less than 300 basis points annually. Tracking error is defined as the standard deviation of portfolio excess returns relative to the benchmark.
- Currency Hedging: Currency hedging is prohibited unless approved in advance and in writing by the Board.

- **Core Active Management**

- Description: Investment in a portfolio of equity securities of companies domiciled outside the United States and primarily listed or traded on foreign exchanges and over-the-counter markets of the countries within the market index benchmark or countries announced to be added to the benchmark index within 180 days of purchase. In no event may the portfolio hold issuers which are only listed or traded on a United States Exchange. Convertible securities, rights, and warrants may not be purchased outright on the market, but may be held, sold, or exercised as investment considerations dictate if received as part of a corporate action. Investment in U.S. dollar denominated foreign securities, ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) are permitted. However, portfolios are expected to

vary in terms of number of securities held and from time to time vary from the index as measured by the statistical characteristics (e.g., country allocation, average capitalization, industry or sector weighting, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.

- Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. For the purpose of the above limitation, partially paid shares and when-issued securities will not be considered leverage and will be permitted. Assets held in emerging markets (as defined by MSCI) may not exceed 20% of the portfolio, measured at the time of purchase, unless approved in advance and in writing by the Board. 144A securities may be purchased provided that the issuer of such securities also has other securities listed on a non-U.S. exchange and traded abroad. No other private placements will be permitted.
- Benchmark: See Appendix A.
- Tracking Error: There are no specific guidelines regarding tracking error. However, it is expected that tracking error may be greater than 30 basis points.
- Currency Hedging: Currency hedging is permitted at the Contractor's discretion. Cross hedging of currency is not permitted.

- **Style-Specific Active Management**

- Description: Investment in a portfolio of equity securities of companies domiciled outside the United States and *primarily listed on foreign exchanges* that substantially matches the composition and characteristics of the market index benchmark. Investment in ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) is permitted. However, portfolios are expected to vary in terms of number of securities held and, from time to time, vary *substantially* from the index as measured by the statistical characteristics (e.g., country allocation, average capitalization, industry or sector, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. Assets held in emerging markets (as defined by MSCI) may not

exceed 20% of the portfolio, as measured by market value, unless approved in advance and in writing by the Board.

- Benchmark: See Appendix A.
- Tracking Error: There are no specific guidelines regarding tracking error. However, it is expected that tracking error will be greater than that of "Core Enhanced Index Management" portfolios.
- Currency Hedging: Currency hedging is at the investment manager's discretion.

Specific Guidelines for Fixed Income Portfolios

- **Core - Index**

- Description: Investment in a portfolio of fixed income securities that substantially matches the quality, coupon, maturity structure and duration characteristics of the benchmark index.
- Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, and US corporations which exhibit characteristics consistent with the quality of the benchmark index, unless specifically approved by the Board. Futures contracts may be used for the purpose of investing cash flows or modifying duration, but in no event may leverage be created by any individual security or combination of securities.
- Benchmark: See Appendix A.

- **Core – Enhanced Index**

- Description: Investment in a portfolio of fixed income securities that exhibits characteristics substantially similar to the benchmark index. Portfolios may vary in terms of number of securities held and, from time to time, vary moderately from the index as measured by the statistical characteristics (e.g., sector concentration, maturity, duration, and yield) of the portfolio. The portfolio must maintain an average credit quality rating of at least A (Moody's) or the equivalent. Securities must be rated at least Baa3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the Board. In the case of a split rating, the higher rating will be used. It is expected that the strategy employed will produce returns net-of-fees which exceed the benchmark index, and will not incur significantly greater risk.

- Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, US corporations, and Yankees which exhibit characteristics consistent with the quality of the benchmark index, unless specifically approved by the Board. Rule 144A securities that are included in the benchmark may be purchased, as well as those that are not included in the index, but meet the index liquidity constraints, have similar characteristics to the index 144A securities, and are issued by a public company. Futures contracts may be used for the purpose of investing cash flows or modifying duration, but in no event may leverage be created by any individual security or combination of securities.
- Benchmark: See Appendix A.
- **Core – Active Management**
 - Description: Investment in a portfolio of fixed income securities that exhibits characteristics similar to the benchmark index. Subject to the following limitations, portfolios may vary in terms of number of securities held and, from time to time, may vary from the index as measured by the statistical characteristics (e.g., sector concentration, maturity, duration, quality, yield) of the portfolio.

The portfolio must maintain an average credit quality rating of at least A (Moody's) or the equivalent. Securities must be rated at least Baa3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the Board. In the case of a split rating, the higher rating will be used.

The duration of the portfolio may not vary more than 20% above or below the duration of the benchmark index.

The total risk of the portfolio as measured by the standard deviation of a series of quarterly returns is expected not to exceed 125% of that of the benchmark index.
 - Investment Constraints: No securities may be held other than those which are publicly traded, dollar denominated debt securities of the US government, its agencies and municipalities, and US dollar denominated corporations unless specifically approved by the Board.

In no event shall any individual security, or combination of securities, create leverage in the portfolio.
 - Benchmark: See Appendix A.

- Currency Hedging: Currency hedging is prohibited unless approved in advance and in writing by the Board.
- **Core – Opportunistic Active Management**
 - Description: Investment in a portfolio of fixed income securities that exhibits characteristics similar to the benchmark index. Subject to the following limitations, portfolios are expected to vary in terms of number of securities held and are expected to vary from the index in terms of statistical characteristics (e.g., sector concentration, maturity, duration, quality, yield) of the portfolio.

The portfolio must maintain an average credit quality rating of at least A (Moody's) or the equivalent. No more than 10% of the portfolio may be rated lower than Baa3 (Moody's) or the equivalent. Securities must be rated at least B3 (Moody's) or the equivalent at the time of purchase unless specifically approved by the Board. In the case of a split rating, the higher rating will be used.

No more than 20% of the portfolio may be invested in non-US dollar denominated government or non-US dollar denominated corporation securities. The portfolio may not be invested in emerging markets' securities.

The duration of the portfolio may not vary more than 20% above or below the duration of the benchmark index.

The total risk of the portfolio as measured by the standard deviation of a series of quarterly returns is expected not to exceed 150% of that of the benchmark index.
 - Investment Constraints: No securities may be held other than those which are publicly traded debt securities of the US government, its agencies and municipalities, foreign governments, and US and non-US corporations unless specifically approved by the Board.

In no event shall any individual security, or combination of securities, create leverage in the portfolio.
 - Benchmark: See Appendix A.
 - Currency Hedging: Currency hedging is at the investment manager's discretion.

SECTION 9. GUIDELINES FOR THE CUSTODIAN

The Board recognizes that accurate and timely completion of custodial functions is necessary for effective investment management and accurate records. Every Custodian is a fiduciary as to the assets placed with them by the Fund.

The Board identifies the following as responsibilities of the Custodian(s) for the segments of the Funds for which each Custodian is responsible:

- A. Provide complete custody and depository services for the designated accounts.
- B. Provide for prompt investment of any cash to avoid uninvested amounts.
- C. Implement in a timely and effective manner the investment actions as directed by the Investment Managers(s).
- D. Collect and receive all income and principal realizable and properly report transactions in periodic statements.
- E. Provide monthly and annual accounting statements as well as on-line access accounting for the Fund, including all transactions; these should be based on accurate security values both for cost and market value. These reports should be provided within a time frame acceptable to the Board.
- F. Report to the staff situations where security pricing is either not possible or subject to considerable uncertainty.
- G. Distribute to the Investment Manager(s) in a timely manner all proxy voting materials.
- H. Provide assistance to the Board and Staff, to complete such activities as the annual audit, transaction verification and other issues.
- I. As requested by Board, provide performance measurement and portfolio analytics for the Fund, consistent with AIMR standards.
- J. When directed by the Board, and pursuant to a separate, written agreement for securities lending service, implement, in a fair and equitable manner, a securities lending program for the Fund, and report fully on all aspects of its operation and returns.

- K. Monitoring. The Custodian shall cooperate fully and with all reasonable requests for documents and records made by the Board or a Consultant designated by the Board. The Board (on its own or through its Consultant) shall periodically review its Custodians, including but not limited to, services provided, services available, charges and fees, and reports.

SECTION 10.SECURITIES LENDING POLICY

Background

IC 5-10.2-2-13(d) provides that the Board may authorize a Custodian to enter into a securities lending program agreement under which securities held by the Custodian on behalf of the Fund may be loaned. The purpose of such a program is to provide additional revenue for the Fund. IC 5-10.2-2-13(d) provides that collateral initially in excess of the total market value of the loaned securities must be pledged by the borrower, and must be maintained at no less than the total market value of the loaned securities.

General Statement With Respect to Board's Intent

The Board intends to maintain a securities lending program, as the Board believes it provides a means of enhancing the overall Fund performance. The investment objective for the securities lending program is to generate incremental income within a high quality investment program that safeguards the return of principal, maintains adequate daily liquidity, ensures diversification of the cash collateral portfolio and tightly controls exposure to fluctuating interest rates. The Board will evaluate the income attributable to the program and the risks inherent in the program. The Board expects each Custodian who has been authorized to enter into an agreement to evaluate at least annually the agent selected by the Custodian and the Board, to offer suggestions with respect to any possible improvements in the program, and to monitor the results of the program (e.g., income, costs associated with the program, issues that arise with respect to the program) and report to the Board as directed.

Method of Implementation

The securities lending program may be implemented through a Custodian or through a sub-agent of a Custodian. Subject to the approval of the Board, any current Custodian for the Fund may implement a securities lending program for the assets placed at that particular institution. Any Custodian may utilize a sub-agent at its discretion to conduct its securities lending program in lieu of maintaining an in-house capability. The use of any sub-agent must be approved in advance and in writing by the Board, and such approval may be revoked for any reason by the Board upon five (5) days written notice to the Custodian. It shall be the responsibility of the Custodian to ensure that their sub-agent adheres to all aspects of these Guidelines as well as any additional contracts which exist in addition to these Guidelines.

The specifics pertaining to any securities lending program shall be detailed in a separate Securities Lending Agreement.

Risk Controls

The Custodian and/or securities lending sub-agent will provide agreed upon indemnification to the Fund (the Lender) from and against any losses, damages, costs and expenses which arise from a borrower defaulting on a loan or filing for bankruptcy. Upon notification of default by the borrower, which shall be reported immediately to the Board in writing, the Custodian shall take such actions as are prudent, necessary and appropriate to use the collateral to acquire replacement securities of the exact same type and kind as the securities which were loaned to the borrower. Any inability to acquire such securities shall be reported to the Fund and to the Investment Manager immediately.

The Custodian and/or securities lending sub-agent is responsible for conducting all appropriate and necessary due diligence on the borrowers and potential borrowers. The name of borrowers and potential borrowers shall be updated and provided to the Board promptly following the end of each calendar quarter.

The Custodian and/or securities lending sub-agent is responsible for ensuring that all loans are at least 100% collateralized. Specific requirements for the amount of collateral required for loans on each type of security, as well as the quality and guidelines for investment of such collateral shall be defined in the Securities Lending Agreement.

Securities shall not be loaned in excess of forty percent (40%) of the market value of Fund's assets (not be taken on an individual manager account-by-account basis) under the care of the Custodian, marked to market on a day-to-day but not on an intra day basis.

Cash collateral shall be invested by the Custodian, and/or its security lending sub-agent pursuant to the Addendum for Securities Lending Cash Collateral Reinvestment. All investments shall be subject to the prudent investor rule, IC 5-10.3-5-3.

The Fund shall direct the Investment Manager of the securities to notify the Custodian of any sales by no later than the trade date to permit the Custodian to effect timely return of loaned securities prior to or on the settlement date.

Monitoring

The Custodian and/or securities lending sub-agent is responsible for reporting fully on all aspects of the Securities Lending Program, including its operation and returns. The Custodian and/or securities lending sub-agent shall cooperate fully with all reasonable requests for documents and records made by the Board and/or an independent certified public accountant selected and retained by the Board to audit securities lending activities.

The Fund shall receive a monthly report of the securities on loan, the income received from loans, the Custodian's and sub-agent fees from loans, the composition of collateral, and the investment characteristics of the collateral. In addition to the monthly report, significant events which require additional reporting shall include but not be limited to borrower list changes, failed trades due to securities on loan, and collateral shortfalls.

The Board (on its own or through its Consultant) shall conduct an annual review of the Securities Lending Program. At this time, the Board will also survey its Investment Managers to ensure they have not encountered any problems with the Program.

SECTION 11. TRADING AND BROKERAGE POLICY

Introduction

The Board intends to fulfill its responsibility for the evaluation and management of transaction costs for the exclusive benefit of members and beneficiaries. To assist in accomplishing these duties, this security transactions policy has been approved by the Board.

Basic Principles

The Board requires that these principles guide all transactions for the Fund:

Best execution and lowest cost, (including commission costs and market impact) and providing benefits exclusively for members and beneficiaries of the Fund must apply to trades.

Efforts to reduce trading costs, in terms of both commissions and market impact, provided the investment returns of the Fund are not jeopardized, will be ongoing.

The Board will retain the ability to enter into brokerage commission recapture agreement(s).

The Board will evaluate transaction activity annually, through a Trading Cost Analysis.

The Board intends there to be a prohibition on any self dealing on the part of any brokerage firm, including any with such a firm's broker affiliate, without specific prior authorization.

Basic Criteria for Selection of Brokerage Firm

The primary responsibility of the Board is to act as a fiduciary to the members and beneficiaries of the Fund. It is the intent of the Board that all transactions of publicly traded securities be effected through brokerage firms, regardless of location, in order to obtain the best execution and lowest cost of the transaction.

Subject to any direction from the Board, each Investment Manager will be responsible for the selection of brokerage firms, or automated trading systems through which trading will be completed for the Fund. Each Investment Manager is also responsible for conducting all appropriate and necessary due diligence on the brokerage firms it selects. Their selection must in all cases be for the exclusive benefit of the Fund's members and beneficiaries and should strive for best execution with lowest cost on trades.

Provided that the total return of a Investment Manager's Portfolio is not adversely affected or that the investment process is not affected so as to place the Fund in a disadvantageous position relative to the Investment Manager's other accounts, and provided that best execution and lowest cost are obtained, each Investment Manager may be requested to direct a percentage of its trading to specified firms for the purpose of brokerage commission recapture programs. In such a case, the Board will select the brokerage firms, with the assistance of the Investment Managers, and establish

the expected level of trading to be directed.

Review/Evaluation

At least annually, the Board will review all transactions and arrangements, if any, for compliance with these policies through an annual Trading Cost Analysis. The Investment Managers and Custodian[s] providing services shall provide any information necessary or helpful to this review.

Disclosure

In addition, each Investment Manager shall report at least annually on brokerage firms they are using and the terms of that relationship. This disclosure must cover all components of that relationship, including but not limited to, payment for order flow, soft dollars, covered expenses, and the nature of the broker selection process.

SECTION 12.PROXY VOTING POLICY

Introduction

The Fund is a large public pension fund and will become a significant equity investor in the stocks of corporate America. The Board recognizes its responsibilities as a fiduciary of the Fund. The Board believes that a proxy policy is an important element of its overall asset management. As an initial position, the Board believes a delegation of authority to other fiduciaries of the Fund, the Investment Managers, will be the most suitable approach.

Each Investment Manager who is retained by the Fund to buy, sell or manage common stocks which are Fund assets will have the responsibility of voting the common stock. To the extent that a third-party is used to assist in some aspect of the Investment Manager's proxy voting, the Investment Manager must inform the Fund of the third-party used and their exact responsibility. In completing this responsibility, each Investment Manager is expected to take these proxy voting guidelines into consideration.

Guidelines

The Investment Manager is to exercise its proxy voting authority for the exclusive benefit of Fund members and beneficiaries, realizing all Fund assets are governed by the exclusive benefit rule of the Internal Revenue Code applicable to qualified plans.

In voting the proxies of common stocks, the Investment Manager must act with the care, skill, prudence, and diligence of a prudent expert who is similarly situated and knowledgeable in the matters under consideration, as required under IC 5-10.3-5-3. The Board intends that this embody the most rigorous application of this standard, that the Investment Manager act with an eye solely to the best interests of the plan participants. Leigh v. Engle, 727 F2d 113, at 125.

These two requirements mandate that the Investment Manager conduct an individual review and analysis of each proxy issue prior to voting. In all cases, the long-term economic best interests of members and beneficiaries should guide the voting decisions.

Reporting Requirements

The Board intends to monitor the voting decisions of Investment Managers. To allow this to occur, each Investment Manager who votes shares of common stock will document such votes and report to the Board no less frequently than annually.

The report shall include at a minimum the following:

- A description of the process the Investment Manager uses to ensure that reasonable steps have been taken to allow for the timely voting of all proxies on all stocks which are held as of the record date.
- The action taken on routine proxies.
- The action, and rationale for the action, taken on non-routine proxies.
- A description of actions in terms of any effects on members and beneficiaries of the Fund, the Indiana economy and any special Indiana issues.

Revocation of Voting Authority

The Board may revoke the authority of a Investment Manager to vote the shares of common stock held by presenting a written revocation of voting authority to the Investment Manager.

SECTION 13.PROCEDURES FOR EVALUATION OF INVESTMENT MANAGERS

General Statement

Periodic reports should supply critical information on a continuing basis, such as the comparative investment performance, portfolio positions relative to stated strategy, and other perspectives of the Portfolios as requested by the Board. The reports should be examined to determine whether investment policy guidelines are being followed, and the Fund as well as the individual Investment Managers are meeting the established objectives.

Performance Measurement

A time-weighted return formula (which minimizes the effect of contributions and withdrawals) should be utilized. The services of an outside, independent consulting firm providing performance measurement and evaluation may be retained. Investment Managers will be expected to comply with the Association for Investment Management and Research's (AIMR) Performance Presentation Standards in calculating and reporting their investment performance. The Fund, and any firms retained by the Fund to calculate investment performance, will also adhere to the AIMR Standards.

Meetings

The Investment Manager(s) are expected to meet at least annually with the Board or its representatives to review the Portfolio and investment results in the context of this Policy. The Custodian is expected to meet at least annually with the Board or its representatives to review its responsibilities.

Compliance Report

Annually, the Board will confirm that the Fund and each of its managed Portfolios have complied with the stated investment policies and guidelines herein, including, but not limited to, the proxy voting policy and the policy for trading.

Reporting Procedures for Investment Managers

The Investment Manager shall:

- Prepare a quarterly report to be delivered to the Board and staff which includes those items requested by the Fund, in the format requested by the Fund. These reports should cover any changes in the firm's structure, professional team or product offerings; a review of recent and anticipated investment activities; an analysis of the major changes which have occurred in the investment markets and in the Portfolio in particular since the last report; a summary of the key characteristics of the Portfolio; and other matters as requested by the Fund from time to time. Periodically, the Staff

will provide the Investment Manager with a detailed description and format for these reports.

- Make a presentation to the Board, or its designated committee, at least annually and when requested by the Board, describing the professionals, the investment process employed for the Fund's Portfolio under the Investment Manager's responsibility, recent performance of the Portfolio, current investment strategy and outlook, and any other related issues as requested by the Board or its designated committee.
- Meet regularly with the Staff to discuss the management of the Portfolio, new developments and any other related matters.
- Immediately report all instances of economically material events which would affect investment performance of assets held (e.g., default, missed interest payments, violation of bond covenants, or significant business restructuring) to the Board and provide recommendations regarding options for addressing such issues, including withdrawing from the investment or other appropriate actions.
- Advise the Board immediately and in writing if any of the following events occur within the Investment Manager organizations:
 - a loss of one or more key people
 - a significant change in investment philosophy
 - a new portfolio manager(s) or account manager(s) on the Fund's account
 - a change in ownership or control (whether through acquisition, disposition, merger, consolidation, or otherwise) or in business focus of the Investment Manager
 - loss of a significant client relationship(s)
 - any investigation or action by a federal or state regulatory body
 - any other event which could be judged to or deemed to adversely impact to a significant degree the management, professionalism, integrity or financial position of the Investment Manager

Evaluation Procedures

The Board intends to review at least quarterly the performance of the Fund and of each Investment Manager Portfolio relative to the objectives and guidelines described herein.

The investment performance review may include comparisons to:

- unmanaged market indices
- other public pension funds
- a broad universe of investment managers
- the Consumer Price Index
- any other indices or measures the Board deems appropriate from time to time

Further, the Board shall at least annually consider:

- staffing of personnel
- stability of business
- changes in product offerings
- organizational structure
- conformance to this policy
- changes in investment strategy and developments in capital markets as they impact strategy
- changes in resources
- communications to the Fund

The Board reserves the right to suspend or terminate any manager at any time. Such right may be delegated to the Investment Committee.

SECTION 14. STANDARDS FOR THE SELECTION OF INVESTMENT MANAGERS, CONSULTANTS AND CUSTODIANS

The Board realizes that from time to time it will need expert assistance in fulfilling its fiduciary duties. The Board expects to retain Custodians, Investment Managers and Consultants to provide such assistance. Each such entity selected will serve as a fiduciary to the Fund.

Basis for Selection

For any type of expertise or assistance which is to be retained by the Board, selection shall only be made based upon the demonstrated ability of the professional(s) to provide the expertise or assistance needed.

Process for the Selection of Professional Assistance

The process shall conform to the legal requirements for professional service procurement under the State statutes. When deemed necessary by Staff and with the approval of the Board, Consultants or other professionals not involved in the specific selection shall assist in the development of requirements, evaluation standards and analysis of responses for the selection process. It is the intent of the Board that the selection process be open to all qualified organizations wishing to participate.

SECTION 15.POLICY WITH RESPECT TO ALTERNATIVE INVESTMENTS

The Board of Trustees of the State of Indiana Public Employees' Retirement Fund (PERF or the Fund) hereby adopts the following Alternative Investment Policy Statement. Effective November 8, 2002, all alternative investments shall be made in accordance with this policy. The Board recognizes that these investments will be an initial user of capital and investment results will be difficult to assess during the first 3-5 years of the program.

The Board of Trustees has approved a target allocation to Alternatives of 5% to be achieved over six years. The Board believes the Fund's equity returns can be enhanced, on a risk-adjusted basis, by investing a portion of its assets in alternatives. The strategic objective is to generate returns:

- 1) Superior to those available in the public equity market to compensate the Fund for the long term and illiquid commitments associated with alternative investments;
- 2) Above the median of comparative universe returns; and,
- 3) Approximately 500 basis points over public market equity investments, as measured by the Russell 3000 Index, net of fees and expenses.

General Statements With Respect to Board's Intent

The objective of the alternative investment program is to provide enhanced returns for the Fund, at an acceptable level of risk. All alternative investments shall be made consistent with Section 8 of PERF's Statement of Investment Policy (Policy). The role of the Board is to make strategic decisions with respect to this asset class and will review this policy statement annually. Alternative investment vehicles may include, but are not limited to, venture capital, corporate buyouts, real estate, private placements and absolute return strategies. The Board may consider investing in these assets if and only if the vehicles meet all standards pursuant to Sections 6, 7 & 8 of the Policy.

- The strategic allocations for alternative investments, as approved by the Board, are as follows:

<i>Sub-categories</i>	<i>Target Allocations</i>	<i>Max/Min. Ranges</i>
Private Equity		
<i>Venture capital</i>	<i>17.5%</i>	<i>10% to 30%</i>
<i>Buyouts</i>	<i>42.5%</i>	<i>30% to 60%</i>
<i>Debt-related</i>	<i>10.0%</i>	<i>5% to 15%</i>
<i>International</i>	<i>10.0%</i>	<i>5% to 15%</i>
Absolute Return Strategies	<i>5.0%</i>	<i>0% to 10%</i>
Real Estate		
<i>REITs</i>	<i>5.0%</i>	<i>0% to 10%</i>
<i>Opportunistic real estate</i>	<i>10.0%</i>	<i>0% to 15%</i>

Portfolio construction will be designed to produce a return mix including both current income and capital appreciation. Targeted Fund commitments will be completed within five to seven years

- No more than ten percent of the Fund's total allocation to alternative investments may be committed to any one partnership, without the approval of the Board.

While specific investments may incur losses of all or part of the capital invested, it is expected that a diversified portfolio of alternative investments will produce a positive return significantly in excess of publicly traded domestic equities. Diversifiable risks associated with this portfolio include position in the capital structure, the timing and amounts of cash flows, the size of the individual investments, and their sensitivities to business cycles. The risks associated with alternative investments will be viewed within the context of the entire Fund. The Board may overweight sub-asset classes within alternative investments to improve the Fund's risk/return posture when these investments are more attractive than other available opportunities.

The Fund may take advantage of opportunities in the secondary market to gain exposure to funds that have already begun drawing capital commitments and collecting management fees. Secondary purchases would be made with the following objectives:

- To gain access to a Limited Partnership that was not available during its initial fundraising period;
- To gain incremental return due to a discounted Partnership interest purchase price; and,
- To manage the Alternative Investment program's cash flow profile (the 'J-curve') by avoiding part or all of the initial period of net negative cash flows and shortening the time to distributions from the Partnership (net positive cash flows).

Over the long term, it is expected that roughly equal amounts of new funding will be committed in each fiscal year, with deviations permitted to accommodate market opportunities and to facilitate initial entry into the asset class.

Specific Guidelines for Private Equity Portfolios

- **Buyout Investments**

- Description: Buyout investments typically involve the purchase of a control position (primarily majority positions, with some minority positions) in an established company with or without leverage. Investments are typically made in years one through three and returns typically occur in years three through six.
- Investment Constraints: No more than 35% of total net assets of an individual partnership may be invested in securities or obligations of foreign entities issued outside the U.S. or in a single industry sector of the domestic economy.
- Benchmark: 300 – 500 basis points above the Russell 3000 Index.

- **Venture Capital Investments**

- Description: Venture capital investments are seed stage, early stage, later stage, and expansion stage investments. Investments are often made in years one through five and returns typically occur in years four through eight.
- Investment Constraints: No more than 35% of total net assets of an individual partnership may be invested in securities or obligations of foreign entities issued outside the U.S. No more than 50% of total net assets of an individual partnership may be invested in a single segment within a particular industry.
- Benchmark: 500 basis points above the Russell 3000 Index.

- **Debt Related Investments**

- Description: Debt-related investments combine a debt instrument, which provides a current yield, with an equity participation of warrants, etc. Investments are typically made in years one through three with a high level of current income that is combined with capital appreciation supplied by the warrants or other “equity kickers”.
- Investment Constraints: No more than 30% of total net assets may be invested in securities or obligations of foreign entities issued outside the U.S. No more than 10% of assets may be invested in equity or debt related real estate assets. No purchase of securities on margin or otherwise borrow funds for the purpose of purchasing securities.
- Benchmark:
- 300 basis points above the Russell 3000 Index.

Note: There are no separate guidelines for international investments. Specific guidelines for these investments are included within the sections covering buyout, venture capital, and debt related investments.

Specific Guidelines for Real Estate Portfolios

- **REITS**

- Description: Core real estate found in high quality REITs portfolios providing inflation protection and current income.

- Investment Constraints: No more than 35% of total net assets of an individual partnership may be invested in securities or obligations of foreign entities issued outside the U.S. or in a single industry sector of the domestic economy.
- Benchmark: 100 – 200 basis points above NAREIT Equity REIT Index.
- **Opportunistic Real Estate**
 - Description: Direct investment in real estate and other investments that involve real estate, such as opportunistic real estate investments involving mortgages, “turnaround” situations, REIT joint ventures, natural resources, etc. Opportunistic or value-added funds provide less current income but greater potential for capital appreciation.
 - Investment Constraints: No more than 35% of total net assets of an individual partnership may be invested in securities or obligations of foreign entities issued outside the U.S. or in a single industry sector of the domestic economy.
 - Benchmark: 300 – 500 basis points above the Wilshire Real Estate Securities Index.

Specific Guidelines for Absolute Return Strategies

- Description: Includes relative value, event driven, long/short, market neutral, and long opportunity funds. Hedge funds may or may not take offsetting long and short positions and, therefore, may or may not be hedged. They generally have few restrictions on the types of securities in which they may invest. These strategies may be also included within the “traditional” equity or fixed income segments.
- Investment Constraints: Further due diligence required prior to Board approval.
- Benchmark: To be determined

Additional Considerations

The Board encourages investment opportunities that support economic development in Indiana, through investment in private equity funds that focus on Indiana and the Midwest, in accordance with its standards for prudent investments and its guiding principles. The Board further encourages its staff, consultant and general partners (GPs) to be proactive in the community, state and region in sourcing attractive partnering opportunities. Such opportunities must be consistent: a) with investment types found in approved sub-asset classes as noted above; and b) meet the investment management and performance standards as set forth in Section 7 & 8 of the Fund’s overall investment policy. Submissions will be channeled to appropriate

partners and managers of the Fund known to have an expertise in evaluating similar opportunities. The staff, consultant, and GPs will endeavor to become a conduit between Indiana opportunities and the investment management community nationwide.

APPENDIX A

BENCHMARKS FOR INVESTMENT MANAGERS

<u>Asset Class</u>	<u>Investment Manager</u>	<u>Index Benchmark</u>	<u>Peer Group Benchmark</u>
Fixed Income :	Northern Trust QA	LB Agg. Index	Core Fixed Income
	Lincoln Capital Management	LB Agg. Index	Core Fixed Income
	Reams Asset Management	LB Agg. Index	Core Fixed Income
	Hughes Capital Management	LB Agg. Index	Core Fixed Income
	Seix Investment Advisors	LB Agg. Index	Core Fixed Income
	Taplin, Canida & Habacht	LB Agg. Index	Core Fixed Income
	BlackRock	LB Agg. Index	Core Opp. FI
	Western Asset Management	LB Agg. Index	Core Opp. FI
	Northern Trust QA	LB TIPS	TIPS
Domestic Equity:	Barclays Global Investors	S&P 500	Large Cap Equity
	Osprey Partners	Russell 1000 Value	Large Cap Equity
	Merrill Lynch	Russell 1000 Value	Large Cap Equity
	Sands Capital Management	Russell 1000 Growth	Large Cap Equity
	Turner Investment Partners	Russell 1000 Growth	Large Cap Equity
	Brandes Investment Partners	Russell Mid Value	Mid Cap Equity
	Strong Capital Management	Russell Mid Growth	Mid Cap Equity
	Brown Capital Management	Russell Mid Growth	Mid Cap Equity
	Osprey Partners	Russell 2000 Value	Small Cap Equity
	Numeric Investors	Russell 2000 Value	Small Cap Equity
	Times Square Capital Management	Russell 2000 Growth	Small Cap Equity
	Brown Capital Management	Russell 2000 Growth	Small Cap Equity
	Dimensional Fund Advisors	Russell 2000 Index	Small Cap Equity
International Equity:	Fidelity Management Trust Co.	MSCI EAFE Index	International Equity
	Barclays Global Investors	MSCI EAFE Index	International Equity
	GE Asset Management	MSCI ACWI ex-US	International Equity
	Capital Guardian Trust Co.	MSCI ACWI ex-US	International Equity
Global Equity:	Brandes Investment Partners	MSCI ACWI Free	Global Equity

TABLE OF CONTENTS

		<u>PAGE</u>
SECTION 1. 7	PURPOSE OF POLICY	
SECTION 2. 8	STATEMENT OF GUIDING PRINCIPLES	
SECTION 3. 9	RESPONSIBLE PARTIES AND THEIR DUTIES	
SECTION 4. 11	CODE OF ETHICS	11
SECTION 5. 16	GENERAL OBJECTIVES	16
SECTION 6. 17	ASSET ALLOCATION	
SECTION 7. 18	INVESTMENT PERFORMANCE STANDARDS	
SECTION 8. 20	INVESTMENT GUIDELINES	
SECTION 9. 32	GUIDELINES FOR THE CUSTODIAN	
SECTION 10. 34	SECURITIES LENDING POLICY	
SECTION 11. 37	TRADING AND BROKERAGE POLICY	
SECTION 12. 39	PROXY VOTING POLICY	
SECTION 13. MANAGERS 41	PROCEDURES FOR EVALUATION OF INVESTMENT	
SECTION 14. 44	STANDARDS FOR THE SELECTION OF INVESTMENT MANAGERS, CONSULTANTS AND CUSTODIANS	
SECTION 15. 45	POLICY WITH RESPECT TO ALTERNATIVE INVESTMENTS	

EXHIBIT B

INVESTMENT PROCUREMENT POLICY

The Board of Trustees of the Public Employees' Retirement Fund (the "Fund") is committed to utilize a public and competitive process in making its investment procurement decisions.

Procurement Authority

(a) The Executive Director or the Executive Director's designee, with the approval of the Board of Trustees, shall have the full and complete authority to enter into all contracts on behalf of the Fund for investment consulting, custodian, and investment management services.

(b) The Executive Director may appoint one (1) person employed by the Fund to supervise and manage the contracts covered by this policy. This person shall have such authority as may be set forth in this policy or as may be delegated by the Executive Director in writing.

Procurement Policy

(a) In all procurement decisions, the Executive Director and the Board of Trustees shall take into account the particularly sensitive nature of the Fund and shall consider the competence, quality of product, experience, and timely performance of the vendors in order to promote and ensure security, fairness, and integrity in the procurement process.

(b) All decisions made under this policy by the Executive Director and the Board of Trustees shall be final except as otherwise specifically set forth in this policy.

(c) The Board of Trustees intends to operate with written contracts whenever feasible.

(d) The Board of Trustees intends that its Investment Policy control in all circumstances.

Applicability

This policy is meant to govern the procurement of investment consulting, custodian, and investment management services, except for amendments, modifications, or extensions of existing contracts, unless the predominate purpose of an amendment or modification is to avoid the applicability of this policy. However, if an emergency exists with respect to any Fund assets, the Executive Director or the Board of Trustees may take any actions they deem necessary and appropriate to safeguard the assets for a temporary period, until permanent disposition of those assets can be made under this policy.

PROCUREMENT PROCEDURE - REQUESTS FOR PROPOSALS

(a) The Executive Director or the Executive Director's designee, with the approval of the Board of Trustees, shall procure goods or services covered by this policy through the use of a request for proposal.

(b) Proposals shall be solicited through a request for proposals, which must include the following:

(1) Factors or criteria that will be used in evaluating the proposals.

(2) General statement concerning the relative importance of price and the other evaluation factors.

(c) Public notice shall be given in the manner described in this policy.

(d) Proposals shall be opened so as to avoid disclosure of contents to competing offerors during the process of negotiation.

(e) A register of proposals shall be prepared and must be open for public inspection after contract award. The register of proposals must contain the following:

(1) Copy of the request for proposals.

(2) Listing of all proposals received.

(3) General basis on which award was made.

(4) Entire contents of the contract file except for proprietary information or financial information which was not required to be made public by the terms of the request for proposal itself.

(f) The request for proposal will contain a clear statement as to whether or not any communication with the Fund may be initiated by a respondent after publication of the request for proposal and before final selection, what may be contained in such communication, who the respondent may contact, and whether or not the Fund will respond. However, the Fund reserves the right to discuss any part of any response at any time for the purpose of clarification. No member of the Board of Trustees, employee of the Fund, or consultant or advisor to the Fund shall have any communications with a respondent or a representative of the respondent about the respondent's proposal or the request for proposal after publication and before final selection, except as otherwise provided in the request for proposal. Respondents must be given equal access to any communications about the request for proposal between the Fund and other respondents. The Fund will make available a recapitulation of the subject matter of any communication and the response of

the Fund. The Fund may make such information available by posting it on the internet. Respondents must be accorded fair and equitable treatment with respect to any opportunity for discussion and revision of proposals. In conducting any communications, there must be no disclosure of any information derived from proposals submitted by competing respondents.

(g) Award shall be made to the responsible respondent whose proposal is determined in writing to be most advantageous to the Fund, taking into consideration price and other evaluation factors set forth in the request for proposals, and the applicable provisions of IC 5-10.2 and 5-10.3.

(h) The only factors or criteria that may be used in the evaluation of proposals are those specified in the request for proposals and the applicable provisions of IC 5-10.2 and 5-10.3.

(i) Public notice of a request for proposal shall be made by publication at least once in one (1) newspaper of general circulation in Marion County, Indiana. The Executive Director may designate additional newspapers or industry publications for the publication of notice, such as Pensions and Investments. The Executive Director may send notices or requests for proposals by mail to prospective bidders or offerors known to the Executive Director to be reasonably susceptible to award of the contract. However, failure to give notice to a particular bidder or offeror does not invalidate a procurement under this rule.

Cancellation; Rejection; Amendment of Solicitations

(a) When the Executive Director or the Board of Trustees determine that it is in the best interests of the Fund, any request for proposal may be withdrawn or cancelled. Additionally, the Executive Director or the Board of Trustees may reject in whole or in part any bids, proposals, or offers that have been submitted at any time prior to the effective date of the resulting contract.

(b) The reasons for the withdrawal, cancellation or rejection must be made a part of the record.

(c) The Executive Director or the Board of Trustees may amend any solicitation in any manner provided that notice is given in a manner reasonably calculated by the Executive Director or the Board of Trustees to provide fair and equitable notice to the potential vendors.

Disclosure Requirements for Procurements

(a) All respondents shall submit the information required by the process at the time of submission of its bid, proposal, or offer. Immediately prior to execution of a contract by a vendor, the vendor shall update the disclosures. The vendor shall be under a continuous duty, in accordance with the provisions of the vendor's contract.

(b) The Executive Director may require such additional disclosures as may be desired for the purpose of enforcing, auditing, investigating, or confirming the accuracy of the disclosures or for any proper purpose.

Contract Terms

No contract shall obligate the Fund for a period in excess of five (5) years. Any contract may contain one (1) or more option periods or provisions for extensions of the contract term, provided that:

- (1) any individual option period or extension does not exceed five (5) years in duration; and
- (2) any individual option period or extension may become effective only upon the specific, affirmative exercise of the option, or the specific, affirmative agreement to the extension, by the Executive Director.

Contract Clauses

No contract with the Fund may contain any terms or provisions which are prohibited by Indiana or federal law. If it is determined that any term or provision is invalid or unenforceable, such terms will be severed from the contract. The remaining terms and provisions shall be unimpaired and interpreted as if such invalid provisions were not contained in the contract.

Public Records

(a) Except as provided in subsection (b), all procurement records shall be available for public inspection following award of the contract or cancellation of the procurement, except to the extent the disclosure is prohibited by law.

(b) The Executive Director may except from public disclosure, at any time, procurement records which are exempt from mandatory disclosure under IC 5-14-3-4(b).

PROCUREMENT CLAIMS AND APPEALS

Application

Pursuant to IC 4-21.5-2-5(11), procurement decisions by the Fund or the Executive Director are not subject to IC 4-21.5. In lieu thereof, vendors or prospective vendors, shall follow the procedures of and have the remedies available under this policy in the event of a protest of any procurement decision of the Executive Director or his designee.

Appeal of Award or Decision to Award a Contract

(a) Any prospective vendor may appeal the award or decision to award a contract by filing a written appeal within seventy-two (72) hours after the award, after receipt of notice of the award, or after the announcement of the decision to award is posted or published, whichever occurs first.

(b) The only grounds for filing an appeal under this policy are as follows:

(1) A procurement decision was not made in compliance with the procedures required by this policy.

(2) A procurement decision was made in violation of any rules regarding ethics promulgated by the Fund.

(c) The appeal shall be in writing and shall state the following, the decision which is being appealed, all grounds for the appeal, and any other information necessary to identify the contract, bid, or request involved in the appeal. It shall also include all evidence or supporting material the prospective vendor wishes to submit.

(d) No appeal shall be made under this policy on the grounds that the prospective vendor was not determined to be a responsible bidder.

Notice

A notice of appeal shall be filed by mailing the notice to the Executive Director at the principal office of the Executive Director in Indianapolis by registered or certified mail, return receipt requested, or by delivering the notice of appeal to the principal office of the Executive Director in Indianapolis. Filing by registered or certified mail shall be effective upon mailing.

Executive Director's Review of an Appeal

The Executive Director shall issue a decision on a claim within thirty (30) days after the claim was filed, which shall be final. The Executive Director shall state the reasons for denial of any appeal filed under this policy. A copy of the decision shall be mailed by certified or registered mail, return receipt requested, to the entity who filed the claim. The decision may order such relief (if any) as is in the best interests of the Fund. Relief may include, but is not limited to, voiding the selection and redoing the process, and damages.

EXHIBIT C

Criteria for Evaluating Active Global Equity Managers

Mercer will evaluate all RFP responses using the following quantitative and qualitative factors, as well as any other factors deemed relevant to the Indiana PERF Board and Mercer in the evaluation of investment manager candidates:

Quantitative (1)

Relative Performance

- Historical rates of return relative to Index and Peer Group
- Historical volatility of returns relative to Index and Peer Group
- Information ratio and tracking error relative to Index and Peer Group
- Consistency of relative performance

Investment Style

- Recent portfolio characteristics and country/regional allocations relative to Index
- Consistency of style, using returns-based style analysis

Qualitative

Organizational Structure

- Ownership structure
- Presence of global infrastructure (in terms of systems and research)
- Assets under management
- Attraction and retention of clients and assets
- Experience with public funds

Investment professionals

- Experience of team and firm
- Stability of team and firm
- Depth of team and firm
- Communication between product teams
- Compensation structure of investment professionals
- Involvement of investment professionals in non-investment activities (marketing, client service, etc.)

Investment Process

- Concentration
- Maximum allocation to one country
- Maximum allocation to emerging markets
- Maximum allocation to cash
- Market capitalization range
- Portfolio Construction (including purchase/sale decision-making)
- Use of currency hedging
- Analytic resources

Global Equity Product

- Assets under management
- Size of largest account
- Attraction and retention of assets
- Recent growth of assets under management
- Length of verifiable track record
- Level and flexibility of investment management fees

Integrity of composite

- Percent of total assets managed in style
- AIMR compliance
- Use of simulated/backtested data
- Use of data/track record from another firm

(1) Index for global value managers is the MSCI All Country World Free Index
Peer Group for fully active managers is the Mercer Global Equity Universe

APPENDIX ONE: CONTRACT FOR SERVICES

This contract is between the Board of Trustees of the State of Indiana Public Employees' Retirement Fund (hereinafter referred to as "Fund") and _____ (hereinafter referred to as "Contractor").

WHEREAS, the Fund desires to contract for services in the area of investment management services; and

WHEREAS, Contractor is willing to provide such services;

NOW, THEREFORE, the above-named parties enter into this contract upon the following terms and conditions:

1. Duties of Contractor

The Contractor shall provide the following services relative to this contract: See Attachment A, Scope of Services, incorporated by reference.

2. Consideration

For services rendered hereunder, the Contractor will be paid in accordance with the Schedule of Fees and the terms thereof set forth at Attachment B hereto and incorporated herein by reference.

3. Term

This contract shall be for a period of not more than five (5) years. It shall commence upon the complete execution of this Agreement and shall terminate on January 1, 2008.

4. Independent Contractor

Both parties hereto, in the performance of this contract, will be acting in an individual capacity and not as agents, employees, partners, joint venturers or associates of one another. The employees or agents of one party shall not be deemed or construed to be the employees or agents of the other party for any purposes whatsoever. Neither party will assume any liability for any injury (including death) to any persons, or any damage to any property arising out of the acts or omissions of the agents, employees or subcontractors of the other party.

The Contractor shall be responsible for providing all necessary unemployment and worker's compensation insurance for the Contractor's employees.

5. Work Standards

Contractor hereby represents that it is a registered investment advisor within the meaning of the Investment Advisers Act of 1940 and that it is a fiduciary to the Fund with respect to the assets allocated to the Contractor for management as contemplated herein (the "Assets"). In managing the Assets, Contractor shall act with the care, skill, prudence, and diligence of a prudent person in like circumstances, in a similar enterprise with similar aims.

6. Acknowledgment of Fiduciary Liability Status

Contractor agrees that it is a fiduciary to the Fund and will perform its duties under this agreement with the care, skill and diligence that a prudent person would use acting in a like capacity.

7. Contract Confidentiality of Fund Information

Contractor understands and agrees that data, materials, and information disclosed to Contractor may contain confidential and protected data; therefore, the Contractor promises and assures that data, material, and information gathered, based upon or disclosed to the Contractor for the purpose of this contract, will not be disclosed to others or discussed with other parties without the prior written consent of the Fund.

8. Confidentiality of Data, Property Rights in Products, and Copyright Prohibition

Contractor further agrees that all information, data, findings, recommendations, proposals, etc., by whatever name described and by whatever form therein, secured, developed, written or produced by the Contractor in furtherance of this contract shall be the property of the Fund and that the Contractor shall take such action as is necessary under law to preserve such property rights in and of the Fund while such property is within the control and/or custody of the Contractor. By this contract the Contractor specifically waives and/or releases to the Fund any cognizable property right of the Contractor to copyright, license, patent or otherwise use such information, data, findings, recommendations, proposals, etc. Notwithstanding the foregoing, the Fund agrees that any proprietary research performed by the Contractor and the investment portfolio process employed by the Contractor shall not be the property of the Fund.

9. Ownership of Documents and Materials

All documents, records, programs, data, film, tape, articles, memos, and other materials developed under this contract shall be considered "work for hire" and the Contractor transfers any ownership claim to the Fund and all such matters will be the property of the Fund. Use of these materials, other than related to contract performance by the Contractor, without the prior written consent of the Fund is prohibited. During the performance of the services, specified herein, the

Contractor shall be responsible for any loss or damage to these materials developed for or supplied by the Fund and used to develop or assist in the services provided herein, while they are in the possession of the Contractor and any loss or damage thereto shall be restored at the Contractor's expense. Full, immediate, and unrestricted access to the work product of the Contractor during the term of this contract shall be available to the Fund. Notwithstanding the foregoing, the Fund agrees that any proprietary research performed by the Contractor and the investment portfolio process employed by the Contractor shall not be the property of the Fund.

10. Reports

The Contractor shall submit reports to the Fund upon its reasonable request, and no event less than as of each month end. The report shall be written. The report shall be in a form agreed to between the Fund and Contractor.

At Fund's request and at mutually agreed upon times, Contractor shall meet with Fund to review Contractor's performance and to discuss Contractor's investment strategy. Contractor shall be available to answer questions by Fund staff and Board members from time to time as needed without additional charge.

11. Access to Records

The Contractor and his subcontractors shall maintain all books, documents, papers, accounting records, and other evidence pertaining to the cost incurred and shall make such materials available at their respective offices at all reasonable times during the contract period and for seven (7) years from the date of final payment under the contract, for inspection by the Fund or by any other authorized representative of the Fund and copies thereof shall be furnished to the Fund, if requested, at the Contractor's expense.

Upon execution of this Agreement, Fund will provide Contractor with a list of Authorized Persons who will be permitted to advise, inform and direct Contractor on Fund's behalf, together with signature specimens of certain Authorized Persons who may execute specific tasks under this Agreement. The list of Authorized Persons and any changes to such list shall be made in writing to Contractor and signed by Fund's Director or the Director's designee. Until notified of any such change, Contractor may rely on and act upon instructions and notices received from an Authorized Person identified on the then-current list furnished by Fund.

All Authorized Instructions shall be in writing and transmitted by first class mail, private express courier, facsimile, or other authenticated electronic transmissions; *provided, however*, that Contractor may, in its discretion, accept verbal Authorized Instructions subject to written confirmation of same from such Authorized Person. If Contractor receives instructions or notices from a source other than an Authorized Person, Contractor shall not comply with them and shall immediately notify Fund's Executive Director in writing of such unauthorized instructions or notices. The Contractor is authorized and shall exercise its discretion in extraordinary situations when communications with an Authorized Person cannot be achieved to proceed with the disposal of

securities to prevent exceptional loss of value to Fund.

12. Assignment

The Contractor shall not assign or subcontract the whole or any part of this contract without the Fund's prior written consent, except that the Contractor may assign its right to receive payments to such third parties as the Contractor may desire without the prior written consent of the Fund, provided that Contractor gives written notice (including evidence of such assignment) to the Fund thirty (30) days in advance of any payment so assigned. Assignment shall cover all unpaid amounts under this contract and shall not be made to more than one party.

13. Successors and Assignees

The Contractor binds his successors, executors, administrators, and assignees to all covenants of this contract. Except as above set forth, the Contractor shall not assign, sublet or transfer interest in this contract without the prior written consent of the Fund.

14. Key Person(s)

a. In the event that both parties have designated in an appendix that the individual(s) therein named are essential to the services offered pursuant to this contract, the parties agree that in the event that such individual or individuals are no longer employed during the term of this contract by the Contractor for whatever reason, the Fund shall have the right to terminate this contract, without penalty, upon thirty (30) days prior written notice.

b. In the event that the Contractor is an individual or a closely held corporation (as defined under Indiana law, *see, e.g., Barth v. Barth*, 659 N.E.2d 559, 561, fn.5, [and cited authority therein]), the individual or person on behalf of the corporation responsible for primary contact between the Contractor and the Fund at the commencement of this contract shall be considered a key person and, as such, essential to the contract. Substitution of another for the Contractor shall not be permitted without express written permission from the Fund.

c. Nothing in subsections a. and b. above should be construed to prevent the Contractor from using the services of others to perform tasks ancillary to those tasks which directly require the expertise of the key person. The Contractor shall not be responsible for the performance of, or any act or omission of any broker or custodian utilized by the Fund for any purpose contemplated herein.

15. Force Majeure; Suspension and Termination

In the event that either party is unable to perform any of its obligations under this contract or to enjoy any of its benefits because of (or if failure to perform the services is caused by) natural or man-made disaster, acts of war or terrorism, actions or decrees of governmental bodies or communication line failure not the fault of the affected party (hereinafter referred to as a "Force

Majeure Event"), the party who has been so affected shall immediately give notice to the other party and shall take steps enabling it to resume performance.

16. Renewal Option

This contract may be renewed in the sole discretion of the Fund for a period of up to the initial term in length, and under the same conditions.

17. Nondiscrimination

Pursuant to IC 22-9-1-10 and Civil Rights Act of 1964, Contractor and its subcontractors, if any, shall not discriminate against any employee or applicant for employment, to be employed in the performance of this contract, with respect to the hire, tenure, terms, conditions or privileges of employment or any matter directly or indirectly related to employment, because of his race, color, religion, sex, disability, national origin or ancestry. Breach of this covenant may be regarded as a material breach of contract. Acceptance of this contract also signifies compliance with applicable Federal laws, regulations, and executive orders prohibiting discrimination in the provision of services based on race, color, national origin, age, sex, disability or status as a veteran.

18. Termination

Notwithstanding anything to the contrary, this contract may be terminated, in whole or in part, by the Fund or the Contractor, for any reason, by delivery of a Termination Notice at least thirty (30) days prior to the termination effective date. The Contractor shall be compensated for services rendered prior to the effective date of termination. The Fund will not be liable for services performed after notice of termination. In no event shall a party's termination of the Agreement under this Section be deemed a waiver of its right to make a claim against the other party for damages resulting from any default by the other party which occurred prior to or on the Effective Termination Date. Additionally, pursuant to IC 5-10.3-5-6, the Fund may terminate this contract immediately in the event that the Board, in its sole discretion, considers such action necessary to protect the Fund. In the event this Agreement is terminated by the Board in this manner, Contractor shall not be responsible for any losses incurred as a result of trades that are executed but not settled.

In the event of any termination of this Agreement, all the terms and conditions herein shall continue to apply through the Effective Termination Date and, if expressly agreed to at the time by the parties, through any period following such date during which Contractor shall continue to perform services to the Fund pursuant to terms agreed to at that time by the parties.

19. Taxes

The State of Indiana is exempt from state, federal, and local taxes. The Fund will not be responsible for any taxes levied on the Contractor as a result of this contract.

20. Penalties/Interest/Attorney's Fees

The Fund will in good faith perform its required obligations hereunder and does not agree to pay any penalties, liquidated damages, interest, or attorney's fees, except as required by Indiana law, in part, IC 5-17-5-1 *et seq.*, IC 34-2-22-1 *et seq.*, and IC 34-4-16-1.1 *et seq.*

21. Compliance with Laws

The Contractor agrees to comply with all applicable federal laws, rules and regulations and those laws of the State of Indiana made known to Contractor by Fund. The enactment of any state or federal statute or the promulgation of regulations thereunder after execution of this contract shall be reviewed by the Fund and the Contractor to determine whether the provisions of the contract require formal amendment.

22. Governing Laws

This contract shall be construed in accordance with and governed by the laws of the State of Indiana and suit, if any, must be brought in the State of Indiana.

23. Indemnification

Contractor agrees to indemnify, defend, and hold harmless the State of Indiana and its agents, officers, and employees from all claims and suits including court costs, attorney's fees, and other expenses arising from or related to any act of bad faith, negligence, intentional or willful misconduct, breach of fiduciary duty, breach of contract, or any other negligent act or omission of Contractor and/or its agents, if any, in the performance of this contract. The Fund shall not provide such indemnification to Contractor.

24. Waiver of Rights

No right conferred on either party under this contract shall be deemed waived and no breach of this contract excused, unless such waiver or excuse shall be in writing and signed by the party claimed to have waived such right.

25. Payments

All payment obligations shall be made in arrears in accordance with the terms hereof.

26. Disputes

Should any disputes arise with respect to this contract, the Contractor and the Fund agree to act immediately to resolve any such disputes. Time is of the essence in the resolution of disputes. The Contractor agrees that, the existence of a dispute notwithstanding, it will continue without delay to carry out all its responsibilities under this contract that are not affected by the dispute.

27. Changes

Each party shall notify the other in writing within a reasonable time after a party becomes aware that any of its representations, warranties and covenants set forth herein cease to be materially true at any time during the term of this Agreement; Furthermore, Contractor shall notify the Fund in writing within a reasonable period of time if (1) there is any material change in Contractor's senior personnel assigned to perform service under this Agreement; (2) there is any change in control of Contractor; (3) Contractor becomes aware of any other material change in its portfolio management structure or its business organization, including without limitation the filing for bankruptcy relief.

28. Investigations and Complaints.

To the extent permitted by applicable law, Contractor shall promptly advise Fund in writing of any extraordinary, and non-routine, investigation, examination, complaint, disciplinary action or other proceeding materially relating to or affecting Contractor's ability to perform its duties under this Agreement which is commenced by any of the following: (1) the Securities and Exchange Commission of the United States; (2) the New York Stock Exchange; (3) the American Stock Exchange; (4) the National Association of Securities Dealers; (5) any Attorney General or any regulatory agency of any state of the United States; (6) any U.S. Government department or agency; or (7) any governmental agency regulating securities of any country in which Contractor is doing business. Except as otherwise required by law, Fund shall maintain the confidentiality of all such information until investigating entity makes the information public.

29. Notice to Parties:

Whenever any notice, statement or other communication shall be sent to the Fund or Contractor, it shall be sent to the following address, unless otherwise specifically advised.

- a. Notices to the Fund shall be sent to:

Craig E. Hartzer, Executive Director
Public Employees' Retirement Fund
500 Harrison Building
143 West Market Street
Indianapolis, IN 46204

With copy to:
Patricia Gerrick, Chief Investment Officer
Public Employees' Retirement Fund
125 West Market Street
Suite 200
Indianapolis, IN 46204

- b. Notices to the Contractor shall be sent to:

30. Authority to Bind

Notwithstanding anything in this Agreement to the contrary, the signatory for the Contractor represents that he/she has been duly authorized to execute agreements on its behalf.

31. Maintaining a Drug-Free Workplace

a. Contractor hereby covenants and agrees to make a good faith effort to provide and maintain during the term of this agreement a drug-free workplace, and that it will give written notice to the contracting state agency and the Indiana Department of Administration within ten (10) days after receiving actual notice that an employee of Contractor has been convicted of a criminal drug violation occurring in Contractor's workplace.

b. In addition to the provisions of subparagraph a. above, if the total contract amount set forth in this agreement is in excess of \$25,000.00, Contractor hereby further agrees that this agreement is expressly subject to the terms, conditions, and representations contained in the Drug-Free Workplace Certification executed by Contractor in conjunction with this agreement.

c. It is further expressly agreed that the failure of Contractor to in good faith comply with the terms of subparagraph a. above, or falsifying or otherwise violating the terms of the certification referenced in subparagraph b. above, shall constitute a material breach of this agreement, and shall entitle the Fund to impose sanctions against the Contractor including, but not limited to, suspension of contract payments, termination of this agreement and/or debarment of the Contractor from doing further business with the Fund for up to three (3) years.

32. Drug-Free Workplace Certification

This certification is required by Executive Order No. 90-5, April 12, 1990, issued by the Governor of Indiana. Pursuant to its delegated authority, the Indiana Department of Administration is requiring the inclusion of this certification in all contracts with and grants from the State of Indiana in excess of \$25,000. No award of a contract shall be made, and no contract, purchase order or agreement, the total amount of which exceeds \$25,000, shall be valid unless and until this certification has been fully executed by the Contractor and made a part of the contract or agreement as part of the contract documents. False certification or violation of the certification may result in sanctions including, but not limited to, suspension of contract payments, termination of the contract or agreement and/or debarment of contracting opportunities with the Fund for up to three (3) years.

The Contractor/Grantee certifies and agrees that it will provide a drug-free workplace by:

- a. Publishing and providing to all of its employees a statement notifying employees that

the unlawful manufacture, distribution, dispensing, possession or use of a controlled substance is prohibited in the Contractor's workplace and specifying the actions that will be taken against employees for violations of such prohibition; and

b. Establishing a drug-free awareness program to inform employees that (1) the dangers of drug abuse in the workplace; (2) the Contractor's policy of maintaining a drug-free workplace; (3) any available drug counseling, rehabilitation, and employee assistance programs; and (4) the penalties that may be imposed upon an employee for drug abuse violations occurring in the workplace.

c. Notifying all employees in the statement required by subparagraph (a) above that as a condition of continued employment the employee will (1) abide by the terms of the statement; and (2) notify the employer of any criminal drug statute conviction for a violation occurring in the workplace no later than five (5) days after such conviction;

d. Notifying in writing the contracting State Agency and the Indiana Department of Administration within ten (10) days after receiving notice from an employee under subdivision (c)(2) above, or otherwise receiving actual notice of such conviction;

e. Within thirty (30) days after receiving notice under subdivision (c)(2) above of a conviction, imposing the following sanctions or remedial measures on any employee who is convicted of drug abuse violations occurring in the workplace: (1) take appropriate personnel action against the employee, up to and including termination; or (2) require such employee to satisfactorily participate in a drug abuse assistance or rehabilitation program approved for such purposes by a Federal, State or local health, law enforcement, or other appropriate agency; and

f. Making a good faith effort to maintain a drug-free workplace through the implementation of subparagraphs (a) through (e) above.

33. Non-Collusion and Acceptance

The undersigned attests under penalties of perjury that he is the contracting party, or that he is the representative, agent, member or officer of the contracting party, that he has not, nor has any other member, employee, representative, agent or officer of the firm, company, corporation or partnership represented by him, directly or indirectly, to the best of his knowledge, entered into or offered to enter into any combination, collusion or agreement to receive or pay, and that he has not received or paid, any sum of money or other consideration for the execution of this agreement other than that contemplated herein or as set forth at Exhibit hereto.

The parties having read and understand the foregoing terms of the contract do by their respective signatures dated below hereby agree to the terms thereof, including, if this contract is in excess of \$25,000, the Drug-Free Workplace Certification.

Contractor

By: _____
Printed Name: _____
Title: _____
Date: _____

Attested By: _____
Printed Name: _____
Title: _____
Date: _____

PUBLIC EMPLOYEES' RETIREMENT FUND

Craig E. Hartzer, Executive Director

Date: _____

ATTACHMENT A

SCOPE OF SERVICES

Contractor shall be responsible for the investment and reinvestment of those assets of the Fund which have been designated by the Board as subject to Contractor's management, which designation may change from time to time, and which may increase or decrease from the amount of funds currently managed. Contractor, as agent for the Board with respect to such assets, when it deems appropriate and without consultation with the Board, may, in its sole discretion, but subject to those applicable portions of the Fund's Statement of Investment Policy, a copy of which is attached hereto, buy, sell, exchange, and otherwise trade in securities. In making such investments Contractor shall consider the following factors and such other objectives as may be communicated in writing by the Board to Contractor from time to time: the purpose of the Fund, the Contractor's mandate, the Fund's financial needs and the Fund's Investment Policy. Contractor shall be responsible for complying with all applicable laws. Contractor agrees to accept, from time to time, as the Board shall desire, additional cash and funds, all to be administered under the terms of this Contract. Should any conflict exist between the terms of the Fund's Investment Policy and this Contract, the terms of this Contract shall control. The ethics provisions of the Investment Guidelines that specifically apply to Investment Managers, and the Ethics Policy of the Board shall apply to the Contractor.

Ownership of managed assets shall remain with Fund. Contractor shall not, under any circumstances, take possession, custody, title, or ownership of any managed assets. Contractor shall not have the right to have securities registered in its own name or in the name of its nominee, nor shall Contractor in any manner acquire or become possessed of any income or proceeds distributable by reason of selling, holding or controlling any managed assets. Accordingly, Contractor shall have no responsibility with respect to the collection of income, physical acquisition or the safekeeping of the managed assets. All such duties of collection, physical acquisition or safekeeping shall be the obligation of the Custodian.

All transactions authorized by this Agreement shall be settled through Fund's Custodian, which shall retain sole possession of and have complete custodial responsibility for the managed assets and the management or disposition of such managed assets, and on the purchase or acquisition of other securities or property. Contractor shall provide the Custodian with such trade information as the Custodian may require to effect settlement, within the time frames as the Custodian may designate. Fund shall provide Contractor with the Custodian's detailed procedures and settlement instructions upon execution of this agreement. The Contractor shall instruct all broker/dealers executing orders to forward to the Custodian copies of all brokerage confirmations promptly after execution of transactions. Where a transaction is eligible for settlement through the Depository Trust Company's Institutional Delivery System, Contractor shall use such Institutional Delivery System for trade confirmation and settlement. Contractor

shall cooperate with Fund's Custodian and other parties to the trade to promptly resolve any trade settlement discrepancies or disputes.

Contractor shall have complete authority and discretion to establish accounts with one or more duly registered broker/dealers. Consistent with ensuring the safety of the managed assets, Contractor shall engage in a prudent and diligent broker/dealer selection process. Contractor shall ensure that all orders are placed with only reputable, qualified and financially sound broker/dealers. Contractor's primary objective shall be to select broker/dealers which will provide the most favorable net price and execution for the sub-account, but this requirement shall not obligate Contractor to recommend any broker/dealer solely on the basis of obtaining the lowest commission rate if the other standards set forth herein are satisfied. Contractor may pay soft dollar commissions to brokers in accordance with Section 28(e) of the 34 Act, and in accordance with any payment and client reporting policies and practices adopted by the Contractor at that time or as otherwise agreed to with the Fund. Notwithstanding the foregoing, Contractor shall not place orders with any broker/dealer which: (1) Fund has by written notice to Contractor deemed unsuitable for Fund trades; (2) is affiliated with an investment consultant that provides non-brokerage related services to Fund of which Contractor has been made aware by Fund; to (3) is affiliated with Contractor. Contractor agrees to be bound by any subsequent changes to such list upon receipt of written notice from Fund.

Global Equity

- Description: Investment in a portfolio of equity securities of companies primarily listed or traded on exchanges and over-the-counter markets throughout the world. Convertible securities, rights, and warrants may not be purchased, but may be held, sold, or exercised as investment considerations dictate if received as part of a corporate action. Investments in U.S. dollar denominated foreign securities, ADRs (American Depositary Receipts) and GDRs (Global Depositary Receipts) are permitted. However, portfolios are expected to vary in terms of number of securities held and from time to time vary from the index as measured by the statistical characteristics (e.g., country allocation, average capitalization, industry or sector weighting, price to earnings ratio, price to book ratio, dividend yield) of the portfolio.
- Investment Constraints: As specifically determined by the Board. Futures contracts may be used for the purpose of investing cash flows, but in no event may leverage be created by any individual security or combination of securities. For the purpose of the above limitation, partially paid shares and when-issued securities will not be considered leverage and will be permitted. Assets held in emerging markets (as defined by MSCI) may not exceed 30% of the portfolio, measured at the time of purchase, unless approved in advance and in writing by the Board. 144A securities may be purchased provided that the issuer of such securities also has other securities listed on a non-U.S. exchange and traded abroad. No other private placements will be

permitted. No more than 5% cash may be held unless approved in writing by the Board.

- Benchmark: MSCI All Country World Index Free. Failure by Contractor to meet or exceed the benchmark in account performance will not constitute a breach of this Attachment A or the Associated Agreement.
- Tracking Error: There are no specific guidelines regarding tracking error. However, it is expected that tracking error will be greater than 500 basis points.
- Currency Hedging: Currency hedging is permitted at the Contractor's discretion. Cross hedging of currency is not permitted.

ATTACHMENT B

SCHEDULE OF FEES

As compensation for its services under this Agreement, the Fund shall pay to the Contractor a quarterly investment management fee based on the market value of the Assets as of the last business day of the calendar quarter ("Valuation Date") computed in accordance with the annual rates set forth below ("Asset Based Fee").

<u>Asset Based Fee Schedule</u>	<u>Annual Rates paid Quarterly</u>
First \$X million	X%
Next \$X million	X%
Next \$X million	X%
Next \$X million	X%
Balance over \$X million	X%

The Assets managed by the Contractor will be appraised on the Valuation Date. Fees are based on the market value of the Assets according to such appraisal.

Contractor will provide the Fund with quarterly billings. All billings shall be paid to Contractor within 30 days of receipt by the Fund. The quarterly Asset Based Fee will be prorated for any quarterly period only a portion of which this Agreement is in effect as specified in the Agreement. The Fund shall be responsible for brokerage commissions, taxes and any other transaction-related fees incurred on behalf of the Fund and/or the account contemplated herein, and the Contractor is hereby authorized to incur and pay such expenses. It is understood that Contractor's policy with respect to allocation of brokerage and brokerage commissions is set forth in Part II of Manager's Form ADV, the receipt of a copy of which is hereby acknowledged by the Client.